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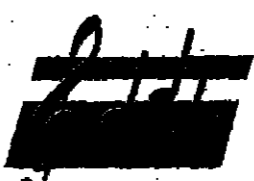
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FINANCIAL TIMES

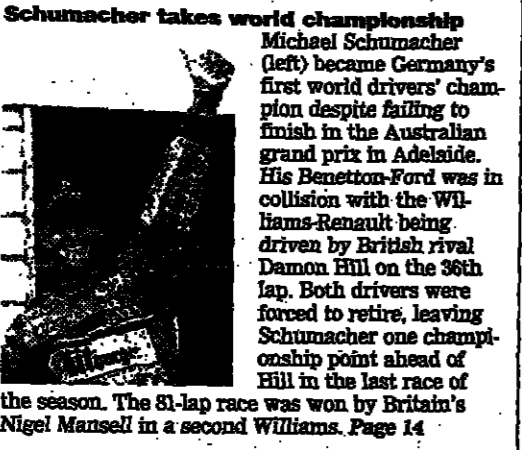
Europe's Business Newspaper

MONDAY NOVEMBER 14 1994

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Labour to press minister on fresh arms-for-aid claim

British foreign secretary Douglas Hurd will face intense questioning from Opposition MPs this week over "arms-for-aid" allegations. Shadow foreign secretary Robin Cook said it looked likely that the Perseus dam project in Malaysia was not "the only case of aid following arms sales". He added: "There is a disturbing pattern in a number of countries of big rises in our aid to them, following big arms orders by them." His remarks followed reports in The Observer newspaper that Britain is assembling a large arms deal with Indonesia soon after renewing pledges of aid. Tories face new EU row, Page 7



Schumacher takes world championship
Michael Schumacher (left) became Germany's first world drivers' champion despite failing to finish in the Australian grand prix in Adelaide. His Benetton-Ford was in collision with the Williams-Renault being driven by British rival Damon Hill on the 36th lap. Both drivers were forced to retire, leaving Schumacher one championship point ahead of Hill in the last race of the season. The 51-lap race was won by Britain's Nigel Mansell in a second Williams. Page 14

Bankers Trust moves executives Bankers Trust, the US bank that faces two lawsuits over derivative instruments it sold, has moved six executives out of their jobs after the discovery of apparent irregularities in its derivatives operations. Page 15

Palestinians detain 150 after bombings Palestinian police arrested more than 150 Islamic Jihad activists in the Gaza Strip following the suicide bombing which killed three Israeli reserve officers. Page 5

Barclays sells US credit arms Barclays has reached agreement to sell its asset-based lending business in the US for a premium of \$200m over its book value, a price which reflects the company's strong track record. The buyer is New England-based banking group Shawmut. Page 16

Weak recovery hits Japanese steelmakers The weakness of Japan's economic recovery and worldwide competition put pressure on the country's integrated steel makers, which reported disappointing half-year results and passed their interim dividends. Page 17; Lex, Page 14; Sweet and sour flow from British Steel; Page 16

Shutto arrests opposition leader's father Pakistani prime minister Benazir Bhutto ordered the arrest of the 75-year-old father of opposition leader Nawaz Sharif. Page 6

Iberia crisis may lead to break-up The management of Iberia, Spain's financially crippled and strike-hit airline, said it would break up the company unless unions agree to drastic wage cuts. Page 9

Johnson Matthey and Cookson may merge UK precious metals group Johnson Matthey and specialist industrial materials group Cookson are considering a merger. Page 16

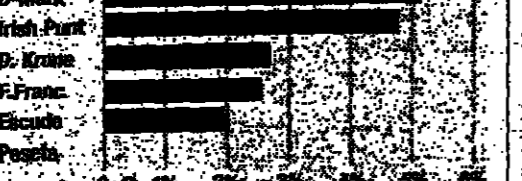
News Corp and Telstra in joint venture Rupert Murdoch's News Corporation and Telstra, Australia's large government-owned telecommunications group, formed a \$310m (US\$162m) joint venture to provide pay-TV services. Page 17

National Parking to reveal buy-out plan National Parking Corporation is to reveal details of a leveraged buy-out by venture capital institutions, expected to value the business at about \$250m. NPC owns National Car Parks, the biggest operator of car parks in the UK. Page 15

Irish Labour party delays decision The Irish Labour party delayed a decision on whether it would withdraw from prime minister Albert Reynolds' coalition government. Page 14

Hijackers surrender Hijackers who seized an Algerian aircraft on an internal flight and forced it to fly to Majorca, surrendered and asked for political asylum. They had sought the release of all political prisoners in Algeria.

European Monetary System The Irish punt slipped from second to fourth place in the EMS grid last week as sterling gave up some of its recent gains and the French franc fell a place as political uncertainty started to prey on it. The spread between top and bottom currency was barely altered. Currencies, Page 25



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Currency	Rate
Austrian Schilling	13.7603
Belgian Franc	65.4800
British Pound	1.0000
French Franc	6.5596
German Mark	1.9364
Italian Lira	2036.27
Japanese Yen	163.6000
Netherlands Guilder	3.6033
Portuguese Escudo	200.4824
Spanish Peseta	166.6399
Swiss Franc	1.7363
US Dollar	1.6363

Public agencies planned for Euro-wide projects

By Lionel Barber in Brussels
The European Commission is drawing up proposals for public agencies to co-ordinate trans-European networks, the multi-billion-dollar rail, road and telecommunications projects expected to span Europe in the 21st century. The proposals signal a new approach to meeting the challenge of funding, building and regulating cross-border infrastructure projects. But they may prove controversial among sovereignty-conscious member states, especially if the planned agencies are given borrowing powers. Mr Jacques Delors, outgoing president of the European Commission, intends to present the proposals at the European summit in Essen next month. His goal is to revitalise private-sector interest in the networks. Mr Delors has already calculated that the total cost of the projects would be Ecu 400bn (\$510bn), much of it drawn from national budgets. Of that, Ecu 220bn would be for transport projects, Ecu 150bn for telecoms, and Ecu 30bn for energy. Some Ecu 230bn would be invested by the end of the century, according to the high-level report.

The idea of creating Euro-agencies to co-ordinate the financing, operation and regulation of the networks is based on the conclusions of a report from a task force of top officials from EU member states. Possible models include the New York Port Authority, which is responsible for the operation and regulation of all bridges, tunnels and airports in the New York-New Jersey area, including JFK airport. Their regulatory powers may be modelled on the UK agencies which supervise the privatised utilities.

Other officials said the immediate issue was lack of co-ordination on 11 priority projects approved in principle by heads of government at the European summit in Corfu last June. The planned high-speed train between Paris-Brussels-Cologne-Amsterdam-London risks being delayed because Belgian railways is short of finance. Meanwhile, Germany is pressing ahead with the Aachen-Cologne link. France is moving fast on the Paris-Strasbourg link in the High Speed Train East, but at the expense of the HST South favoured by Spain. Officials are concerned that the Madrid-Barcelona link may be completed far sooner than the link between Perpignan and Montpellier in southern France. The Betuwe line between Rotterdam and the German Ruhr is being delayed by the Dutch government's desire to examine the environmental impact. Mr Henning Christophersen, Continued on Page 14

Politicians relieved as voters back Union by clear margin

Sweden says Yes to joining EU

By Hugh Carnegie and Christopher Brown-Humes in Stockholm

Sweden yesterday voted by a clear margin to join the European Union, keeping on course the EU's plan to enlarge from 12 to 16 members next year.

With counting complete in all but a few districts, the result stood at 52.1 per cent in favour of membership, and 47 per cent against.

Just under 1 per cent cast blank votes. The vote followed decisive approval of membership earlier this year by Austria and Finland. It increases the chances of a Yes vote in Norway, which will be the last of the four European Free Trade Area applicants to vote in a referendum due on November 28.

The result was greeted with relief in both Stockholm and Brussels.

The Swedish EU opposition, spearheaded by leftwingers and environmentalists, mounted a strong campaign, arguing that membership threatened Sweden's democracy and welfare system.

"I am certainly impressed," said Mr Hans Van den Broek, the EU commissioner for external affairs. "I can say on behalf of the European Commission that we are very much encouraged by this result."

"I think it is a real impulse towards further good co-operation within the European Union when Sweden says we want to be a member of this Union."

The EU feared that if the EFTA enlargement plan stumbled, it could derail plans already in train to build closer ties with - and eventually offer membership to - six countries in eastern and central Europe.

As recently as one week ago polls indicated the No campaign had a strong chance of victory, in spite of facing the combined pro-EU resources of the political establishment, led by Mr Ingvar Carlsson, the social democratic prime minister. Mr Carl Bildt, the conservative former prime minister, industrial and trade union leaders, the main farmers' organisation and most of the national newspapers.

Attention will next swing to Norway where opinion polls continue to show a strong lead for the No campaign, which defeated an earlier bid to join the European Economic Community in a referendum in 1972.

Mrs Gro Harlem Brundtland's Labour government has all along gambled that a Yes vote in neighbouring Sweden would provide the necessary impetus to swing the electorate towards membership.

Late last week, one opinion poll, in the newspaper Aftenposten, showed for the first time in months the Yes camp moving ahead of the opposition if Sweden accepted membership. The poll showed a Yes lead of 46 per cent to 41 per cent.

In Sweden, a powerful appeal for a Yes vote made over the past few days of the campaign by the political establishment appeared to have won over many of the large number of voters who did not make up their minds until just before voting.

China yesterday said its negotiations to become a founder member of the World Trade Organisation next January faced stalemate unless government leaders in Beijing and Washington intervened directly.

Speaking before a meeting in Jakarta today between President Bill Clinton of the US and President Jiang Zemin of China, Mr Long Yong Tu, Beijing's chief trade negotiator, said the talks had become so difficult that ministers and officials could not complete them on their own.

He accused Washington of holding up the talks by making arbitrary and frequently changing demands. Although China offered what Mr Long called "very important" concessions - including a sharp increase in the



US president Bill Clinton and his wife Hillary tour the American cemetery in Manila yesterday where more than 17,000 second world war victims are buried. Mr Clinton's visit to the Philippines is the first by a US president since Gerald Ford in 1975

Microsoft to open on-line network

By Louise Kehoe in San Francisco

Mr Bill Gates, chairman of Microsoft, the world's largest computer software company, will announce plans for a worldwide on-line information service for personal computer users today.

Microsoft is expected to undercut competitors' prices by about half. The company's entry into on-line services is a serious challenge to existing services such as CompuServe, Prodigy and America Online, which at present lead the market with a combined subscriber base of about 6m users.

Microsoft's long-anticipated move reflects its desire to play a central role in the development of "information superhighways". It is also a significant step towards fulfilling Mr Gates's vision of putting information "at the fingertips" of all PC users.

The Microsoft network is expected to be activated next spring and to incorporate a range of services - among them, shopping catalogues, financial ser-

Worldwide service for users of PCs will undercut competitors' prices

ences, news services and reference works including an on-line encyclopedia. Like existing services, Microsoft's will include electronic mail, bulletin boards and "chat" services that allow subscribers to engage in discussion groups, as well as links to the Internet, the global computer network.

Instead of charging users according to the length of time they are connected to the service, Microsoft will keep basic fees low and add "subscription" charges for access to selected news and information.

Microsoft has been seeking to attract publishers to become "content providers" for its network by promising them a larger share of revenues than the 20 per cent to 30 per cent typically offered by existing services and by offering on-line advertising.

The software company has also developed software "tools" can be used to create electronic versions of print publications.

Access to the Microsoft network will be incorporated in Windows 95, a forthcoming version of the popular Windows PC program. Only by purchasing the new program will PC users be able to use the Microsoft on-line

Continued on Page 14

China calls for summit over entry into world trade body

By Guy de Jonquieres and Peter Montagnon in Jakarta

China said yesterday that its negotiations to become a founder member of the World Trade Organisation next January faced stalemate unless government leaders in Beijing and Washington intervened directly.

Speaking before a meeting in Jakarta today between President Bill Clinton of the US and President Jiang Zemin of China, Mr Long Yong Tu, Beijing's chief trade negotiator, said the talks had become so difficult that ministers and officials could not complete them on their own.

He accused Washington of holding up the talks by making arbitrary and frequently changing demands. Although China offered what Mr Long called "very important" concessions - including a sharp increase in the

number of Chinese cities open to foreign banks - the US had not responded positively, he said.

Mr Long also appeared cool towards recent US and EU suggestions that they would be ready, if necessary, to extend the talks beyond the end of this year. He said Beijing regarded the deadline for entering the WTO as important and should not be expected to make any further concessions once it had passed.

"We are really at the end of our patience," he said. He hinted that Beijing might even walk away from the talks if no further progress was made soon. "We know China can do very well without GATT (General Agreement on Tariffs and Trade)."

However, Mr Mickey Kantor, Mr Clinton's trade representative, insisted that progress in the talks depended on China. He said after a meeting with Mr Wu Yi,

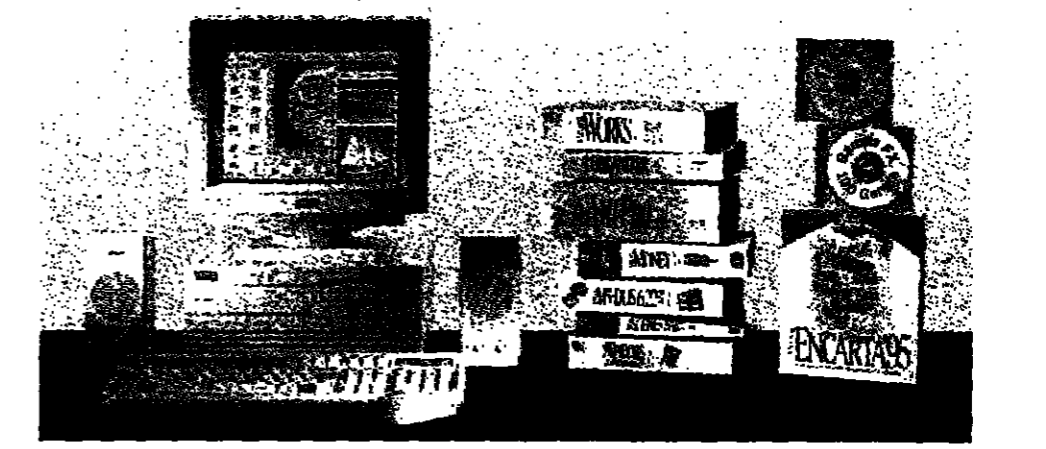
China's foreign trade minister, that most countries on the GATT committee dealing with China's application agreed that Beijing had not moved far enough to open its market.

"I am not persuaded that we can finish our negotiations by the end of the year, but we will make every effort," Mr Kantor said.

Mr Long did not rule out making more concessions in talks with the US next month. However, he complained that every time China had sought to meet US demands, Washington had responded by asking for more.

He also accused the US of "double standards" in pursuing aggressive unilateral trade policies while claiming to uphold the world trade system. "They never take GATT seriously."

China "losing patience", Page 6



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Chirac and Balladur dent presidential hopes

Gaullism's rivals suffer setbacks

By David Buchanan in Paris

Gaullism's rival candidates for the French presidency next year each took a serious knock at the weekend, with prime minister Edouard Balladur losing a third minister to a political funding scandal and Mr Jacques Chirac winning only partial party backing in his campaign for the Elysée.

Mr Michel Roussin resigned on Saturday as aid minister in advance of the expected move by a magistrate to charge him this week in a case involving alleged bribes on housing contracts in 1992 when he headed Mr Chirac's office as mayor of Paris.

Mr Balladur has appointed Professor Bernard Debré to replace him. As he did to plug the earlier ministerial gap left by Mr Gérard Longuet and Mr Alain Carignon, the prime minister has simply replaced one Gaullist RPR ally with another.

Several other ministers have been fleetingly mentioned in the context of various current inquiries into political funding, and Mr Charles Pasqua, the interior minister, had urged Mr Balladur to reshuffle his government.

But the RPR prime minister preferred not to disturb the delicate political balance of his government in coalition with the centre-right UDF less than

The French authorities yesterday placed into custody 77 of the 95 suspected Islamic militants arrested last Tuesday, writes Andrew Jack in Paris.

All but one of the 78 people still held until Saturday were taken to one of five prisons across Paris yesterday after being questioned by investigating magistrates. They included French, Algerian, Moroccan and Russian citizens. Seventeen had been released in the last few days.

They face charges including acts linked to the planning of terrorism, theft, falsification of documents, undermining the state and breaches of the laws concerning weapons and explosives.

The police crackdown last Tuesday - which was primarily in the Paris region - was the second such large-scale action since the summer, and led to the seizure of arms and forged documents.

Mr Charles Pasqua, the interior minister, said the raids followed surveillance of the Armed Islamic Group (GIA), which had a network with branches in Germany, Britain, Italy, the Netherlands and Canada.

six months before the presidential election. The extraordinary feature of Prof Debré's appointment is that he has a parallel medical career as head of the Cochin hospital's urological unit, and that in 1992 and again this year it was he who led the team that operated on President François Mitterrand for prostate cancer.

In the Balladur government, therefore, now sits someone who probably knows more than anyone else about the president's illness - the chief factor that has unleashed ferocious presidential rivalries so far ahead of the final voting round on May 7.

Meanwhile, Mr Chirac's plan to organise a rousing send-off from the RPR to his presidential campaign partially misfired on Saturday.

The 1,700 RPR delegates at a special meeting in Paris cheered Mr Chirac's often bitter and scarcely veiled swipes at Mr Balladur, but barely passed a motion of "testimony and confidence" in the man who created the RPR in its present form 18 years ago and led the party until his resignation on Saturday.

The worrying fact for Mr Chirac was not that the special congress was boycotted by Mr Balladur, who chose to attend a mountain rescue demonstration near his Alpine chalet, or by the prime minister's backers, but that it was shunned by several Gaullist heavyweights, notably Mr Philippe Séguin, the National Assembly president, who with Mr Alain Juppé, the foreign minister, co-presides over the new Chirac-for-President committee. Mr Séguin's real objection is said

to be jealousy that Mr Juppé has now become interim president of the RPR.

But, publicly, Mr Séguin complained that the Saturday meeting smacked of an attempt to get the RPR to endorse Mr Chirac as its only candidate, going against the spirit of De Gaulle's Fifth Republic. This held that presidential elections are a matter between candidates and the people, with little or no formal role for party machines.

Mr Séguin warned that "in refusing to publicly own up to each other's candidacy", Mr Chirac and Mr Balladur were "engaged in a suicidal logic and weakening each other and smoothing the way for a third man - Jacques Delors".

If the European Commission president were rapidly to give in to the Socialist party's blandishments and to declare that he will start running for the Elysée when he leaves Brussels late next January, this could quickly shock the warring Gaullists into closing ranks. Mr Delors is running level with Mr Balladur in the opinion polls, with Mr Chirac still a bit behind both.

But last week in Paris Mr Delors said he was still "not at the end of my reflection". This includes weighing personal factors such as his desire for a rest after 10 years of hard service for the European Union.

There are also electoral uncertainties - such as the real odds on him winning and subsequently gaining a governing majority after 14 years of socialism in the Elysée and after the socialists suffered such a parliamentary landslide defeat only 18 months ago.

France's employers to elect chief

By John Riddling in Paris

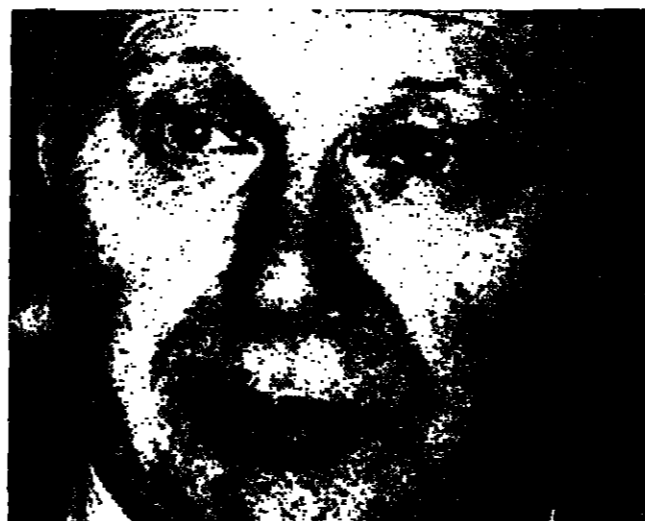
After months of campaigning, France's presidential hopefuls today face the moment of truth when their candidacies are put to the vote. Not the election to replace Mr François Mitterrand at the Elysée palace, but to determine who will become the next president of the Patronat, the French employers' federation.

The 36 members of the Patronat's executive council are set to choose between two candidates - Mr Jean Gandois, the former chairman of Pechiney, the state-owned aluminium and packaging group, and Mr Jean-Louis Giral, head of the family-run building contractor Désquenne et Giral.

If a clear majority is reached the decision should be endorsed by the organisation's 536-member general assembly next month.

There is much at stake. The next "boss of bosses" will be faced with the task of revitalising the organisation, which has traditionally played an important role in forming economic and labour policy, but which has seen its influence recede somewhat in recent years. The decline of planning in the French economy, the reduction in union power, and divisions within the organisation have given it a less central role. The successor to Mr François Perigot will also take the reins at a time when French business has been tarnished by a series of corruption scandals.

Despite their differences -



Jean Gandois (left), ex-head of Pechiney, the aluminium and packaging group, is favourite to succeed François Perigot (right).



Mr Gandois is a captain of big industry, his rival a champion of small and medium-sized companies - the two candidates agree on many policy areas. Both believe that the contributions paid by employers to the social security budget should be further reduced, particularly in the case of small companies, to stimulate employment.

Similarly, they are in accord about the need to clarify the rules concerning political funding and the need to respect judicial secrecy in corruption investigations. "We must stop this mass media game", said Mr Giral, after Mr Jean-Louis Béraud, chairman of Saint Gobain, the glass and packaging group, was placed

under investigation in a corruption probe.

But there are several important areas of disagreement. Mr Gandois, who remains chairman of Cockerill-Sambre, the Belgian steel group, is a convinced European. His rival is a Euro-sceptic, dubious about the virtues of tight monetary policy. "This is the first time there has been a doctrinal disagreement in the Patronat contest," says one official at the organisation.

With French presidential elections just six months away, the two candidates are also divided on political allegiances. Mr Giral, a local councillor for the Gaullist RPR party, is close to Mr Jacques Chirac. Mr Gandois is

more eclectic in his political ties, claiming close relations with all mainstream parties. Favourable to the economic policies of Mr Edouard Balladur's centre-right government, he says, however, that "it is regrettable that important reforms which need to be taken have not been".

A further important divergence concerns their vision for the Patronat. Mr Gandois has more ambitious objectives than his rival, seeking to develop a "force for proposals" on all important economic policy issues, from unemployment and taxation to European integration. He is seeking stronger direction at the Patronat, which has been weakened by attempts to find

consensus among a membership increasingly divided over issues such as the Gatt negotiations on trade liberalisation. "If you seek consensus on everything, you will be left behind," says Mr Gandois.

Such an approach has ruffled feathers among the Patronat's members. But many business leaders are sympathetic to such a view. The chairman of one leading industrial group said: "France needs important social and economic reforms. So we need to find a strong voice to direct the debate." For most observers, the voice is likely to be that of Mr Gandois. But officials at the Patronat caution that the contest has been the closest for many years.

Pride of place in French wallets

By Andrew Jack in Paris

It might seem a little strange to commemorate an unassuming piece of plastic, but the French can be justly proud of a pioneering payment system that has just turned 10 years old and remains far ahead of its equivalents in other countries: the *carte bancaire* system.

While the British still struggle with rival and incompatible banking networks, and the US has only recently begun to move towards a single system, for a decade the French have been able to withdraw cash from the dispenser of any bank around their country - and in many other places around the world.

For longer still - since 1967 - they have been used to paying for their purchases in shops electronically with a plastic card, in stark contrast to the

"Switch" system in the UK, for example, which has only just started to make progress against cash.

The history of the banking card and the development of the inter-banking system represent a uniquely French blend of co-operation over competition and an obsessive interest in developing new technology.

Many of the French refer to the plastic bank card in their wallet as the *carte bleue*. In fact, until a decade ago, this was the trade name for only one of three intensely competitive and incompatible systems with different cards, procedures and equipment.

Twenty-seven years ago, the *carte bleue* charge card was launched jointly by Banque Nationale de Paris, Crédit Lyonnais, Société Générale, Crédit Industriel et Commercial and Crédit Commercial de France. Within a year, 25,000

merchants were accepting the 255,000 cards for payments for goods and services.

Four years later, in 1971, magnetic strips were added to the cards, allowing withdrawals from cash dispensers at banks around the country. Rival national systems were established by Crédit Agricole and Crédit Mutuel.

While the *carte bleue* network began to add new member banks and sign an agreement internationally with Visa, Crédit Agricole launched a "Contact" card - renamed the *carte verte* in 1978 - and linked up in other countries with MasterCard.

The battle between the "green" and the "blue" cards and with Crédit Mutuel's rival network came to a head in 1984, when the three groupings agreed to co-operate with a single national network. The new name was "CB" - for *carte ban-*

caire - with both colours diplomatically included in the design of the card.

At that time, there were 315,000 merchants and 7,200 automatic teller machines accepting 13.8m cards. Ten years later, the figures have shot up impressively: 530,000 retailers and 19,000 ATMs accepting 22m cards. There are more than 2.2m transactions involving payments of FF511bn (\$61bn) and withdrawals of FF622m in 1993.

"Success was not guaranteed," recalls Mr Claude Menesguen, chairman of the Groupement des Cartes Bancaires, the association of the banks that administer the system. "Getting institutions with different views and interests to work together was not clear-cut."

Innovation did not stop with co-operation between the banks, however. Back in 1983,

the banks were experimenting with "memory cards" which included microprocessors. By 1990, all the banks had incorporated these chips into "smart cards", and introduced a four-digit security code to authorise payments.

The result has been a substantial reduction in card fraud, which has fallen from 0.27 per cent of all transactions in 1987 to 0.04 per cent last year - which the French claim to be among the lowest proportions in the world.

As Mr Jean-Claude Trichet, governor of the Bank of France, said in a speech recently to commemorate the first decade of the inter-banking system, the *carte bancaire* allows the best of both worlds: co-operation to offer customers a universal service, and competition for banks to continue offering their own services to enrich the value of the card.

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Iberia crisis may lead to break-up

By Tom Burns in Madrid

The management of Iberia, Spain's financially crippled and strike-hit airline, has warned today that it will break up the company unless unions agree to drastic wage cuts over the next two years.

Union action grounded 75 per cent of Iberia's flights on Friday in the second 24-hour stoppage this month and further strikes are planned through to Christmas in protest at the company's plans to reduce salaries by an average 15 per cent over the next two years.

The pay cuts form part of a rescue package for the company that includes a fresh injection of public funds. New funding has yet to be vetted by the European Commission, however, and government officials say there is no chance of Brussels agreeing to the recapitalisation of Iberia unless there is prior agreement on an effective plan that will ensure the airline's future viability.

Mr Javier Salas, chairman of Iberia and also of IMI, the public sector holding which owns the airline, said in a letter to employees there was now a "serious risk" that the company could be "legally bankrupt and forced into liquidation" early next year unless there was agreement over the

management's proposals. Separately the management has warned union leaders that a failure to agree on the pay cuts would force the company into segregating its business and selling off its handling and catering units. Iberia would also dispose of its former wholly-owned subsidiary Viva, a former charter company that currently serves regular domestic and European routes, and shareholdings in the Latin American carriers, Aerolineas Argentinas, Chile's Ladeco and Venezuela's Viasa.

Unions say they are prepared to negotiate reduced wages but that a prior condition to any cost savings must be a shake-up of the company's board and senior management. Iberia is expected to lose Ptas44bn (£213m) this year, which is roughly the equivalent of what the airline hopes to save under the proposed pay cuts and from a plan to shed 2,120 jobs from its 24,456-strong labour force.

Iberia's management says at least \$1bn is required urgently to re-capitalise the company.

Even in the event of an agreed plan to save costs, such sums would prove highly controversial in Brussels where seven European airlines, led by British Airways, are currently contesting the commission's recent approval of a state aid package for Air France.

Russians baffled by petrol shortage

By Chrystia Fretland in Moscow

"You do not expect Newcastle to run out of coal. In Demerara there are no lines for sugar," said a Moscow daily as irate Muscovites, waiting at petrol stations in sub-zero temperatures in long queues, struggled to understand why the capital city of one of the world's main oil producers should be suffering from an acute petrol shortage.

At the height of the fuel shortage last weekend, when only a handful of commercial stations in this city of 9m people were selling petrol and diesel fuel, prices soared to as much as ten times their usual level. The state-run stations which dominate Moscow's retail petrol trade had no fuel at all.

This weekend, Moscow's mayor, Mr Yuri Luzhkov, responded to the crisis by withdrawing licences from more than 10 petrol retail companies accused of "profiteering" from the shortage by increasing prices.

But the new-style commercial "profiteers" were responding to a crisis which was, in large measure, caused by old-style state planning. To protect Muscovites - who retain a sense of special entitlement from the Soviet days when the capital city was always supplied with consumer goods



Privately owned petrol tankers dispensing fuel in the streets of Moscow during the previous petrol shortage two months ago

unavailable in the provinces - from recent increases in the price of petrol and diesel, city authorities decreed that fuel should be sold at artificially low rates.

As in the era of central planning, when all Soviet citizens could buy bread for pennies a loaf but paid for the privilege with hours spent in queues, Moscow's artificially low fuel

prices inspired drivers from the provinces to flood into the city, provoking a shortage. The problem was exacerbated when, at the height of what Muscovites call "the petrol crisis", the Moscow fuel refinery reportedly suffered a breakdown and suspended shipments to the city.

A conspiracy theory was readily supplied for the refinery's timely equipment failure. It was suggested that the plant's management preferred not to sell fuel at unprofitably low rates.

They are now pointing to the timely repair of the refinery earlier this week, shortly after Mr Luzhkov brought state prices in Moscow for petrol and diesel fuel back into line with the rest of the country. But

even at the new, higher prices of between Rbs400 and Rbs500 (between 12 and 16 US cents) a litre for petrol, the drivers of the gleaming new Mercedes - which clog Moscow streets with western-style traffic jams - pay artificially low prices for their fuel.

Russian oil producers are understandably unhappy about supplying their compatriots at

these rates and, beginning on January 1 - when the system of quotas and licences for oil exports are to be abolished - they will be free to look for more profitable markets abroad.

Their eagerness to do so is likely to be increased by the non-payments crisis which is one of the reasons cited by Russian officials to justify their reluctance to fully liberalise domestic fuel prices.

However, even at the current low rates, many state consumers of fuel - in Moscow most notably the state-run transport system and the municipal infrastructure - have been simply not paying their fuel bills.

Mr Luzhkov's decision to crack down on "profiteering" petrol stations may appease Muscovites angry at queuing for fuel in a city where rapidly growing oil fortunes are ostentatiously displayed at newly established, wildly expensive night clubs and casinos.

But unless Russia's avowedly reformist new government soon addresses the distortion of an economy in which many of the constraints on profitable producers have been lifted, but consumers and social service providers still expect the artificial shelter of a planned economy, Muscovites should not expect this petrol crisis to be their last.

Italian unions buoyed by mass protests

By Robert Graham in Rome

"After the floods, it's a human tide," observed Mr Sergio Mangano as he looked down on a sea of demonstrators in the Circus Maximus, the ancient Roman chariot track, which on Saturday was the scene of the largest of the three anti-government demonstrations staged in Rome.

Mr Mangano, a metal worker from Brescia, had like many given up his weekend to come to Rome. He had arrived complete with ear-plugs to permit him to blow a high-pitched whistle almost continuously. "Berlusconi cannot ignore this," he said, well content with the day.

According to the three union confederations who organised the demonstration against the 1995 budget, 1.5m took part. The police put the figure at 1.2m. Whatever the figure it was Italy's biggest post-war demonstration. Because of last week's devastating floods in northern Italy, the unions had expected under 1m people to take part.

In terms of numbers and planning (more than 8,500 buses and 50 special trains were involved), it was an extraordinary achievement, underlining the unions' formidable organisational skills. Equally remarkable was the way the protest passed off virtually without incident. But what next?

The right-wing government's initial reaction has been to pretend that it is business as usual. The hawks are now

expected to argue that the unions do not have enough public support to escalate their protest. Indeed a confrontation may even play into the government's hands.

Following last month's four-hour general strike, the government made some concessions to its pension reform plans in the budget - the main specific object of protest. To concede more would undermine the original shape and aims of the budget, which is aimed at holding the public sector deficit to 8 per cent of GDP.

As it is, the budget looks unlikely to meet planned targets. To keep the coalition together the government is already calling confidence votes. The first will be today on a scheme to introduce a pardon for buildings built without proper planning permission.

The unions themselves face a dilemma. They must now decide whether they wish to be the central driving force of an anti-Berlusconi movement, or limit themselves to protecting their members who risk losing out by cuts in pensions and health benefits.

Perhaps, the very success of Saturday's demonstration will force the unions to become both more political and more unified. Seeing the government coalition seriously weakened by its own errors and by internal divisions, the temptation to frighten Mr Berlusconi by staging more street protests and a general strike might be irresistible.

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NEWS: EUROPE

Euro-fraud squad turns on the heat

By Peter Marsh

As cases of Eurofraud go, it is a classic. A Piedmontese farming family allegedly helped itself to Ecu22m (\$43.8m) of illicit European Union agricultural subsidies by importing beef from Poland and then diverting the meat mixed up with bags of bones and skins to Malta, the Middle East and northern Africa while reserving the best cuts for local sale.

The family of three now faces fraud charges in Italy, while police have also arrested 16 Customs officials in Naples thought to have played a part in the scam.

Efforts to gain convictions are being assisted by Uclaf, a squad of about 60 investigators and officials who operate under the auspices of the European Commission.

Uclaf, set up in 1988 and for years regarded as somewhat sleepy, has recently acquired a more dynamic image partly because of the extra attention EU officials and politicians are paying towards financial irregularities.

It is thought that between 2 and 10 per cent of the EU's annual Ecu70bn budget is wasted either through fraud or lax financial checking procedures.

In many cases, the complex nature of EU spending rules allows scope for fraud either by professional criminals or opportunist farmers or construction companies eligible for grants or subsidies.

A long list of sloppy supervision of cash - and in some cases downright fraud in areas such as money spent on agriculture, transport and training - is likely to be highlighted tomorrow in the annual report of the Luxembourg-based Court of Auditors, the EU's main financial watchdog.

Most of the reported frauds or "irregularities" crop up in the EU's agriculture budget, which accounts for roughly half total spending. Many of the frauds relate to false claims by traders or food processing companies for export subsidies for transferring farm products (such as the beef in the case of the Piedmontese family) out of the union to

FRAUD AND OTHER FINANCIAL IRREGULARITIES IN EUROPEAN UNION AGRICULTURE SPENDING

Year	Number of cases	Sums involved (Ecu m)
1990	826	125
1991	600	123
1992	1028	114
1993	1298	248
1994*	856	212

*First six months.

Source: European Commission

reduce European food stocks. A second important category concerns cash channelled illicitly to farmers on the basis of false production returns covering crops such as olive oil, cotton or tobacco.

According to the latest Uclaf figures, 856 suspected frauds totalling Ecu212m were reported across the EU in agriculture in the first half of 1994, compared with 1,298 cases in the whole of last year. While the rate of increase in fraud appears to be alarming, much of it may be put down to better detection, according to Uclaf officials and thus may be seen as a positive rather than negative signal.

This view underlines the point that no one really knows the extent of fraud. In an interview last week Mr Per Brix Knudsen, Uclaf's extroverted Danish director, said it was "unfair" for onlookers automatically to assume that 10 per cent of all EU spending was wasted through fraud.

Mr Knudsen took over his job in January as part of the effort to raise the unit's profile.

The 10 per cent figure is based on a largely unscientific estimate made several years ago by Professor Klaus Tiedemann, a German criminologist. It has been accepted uncritically by many EU critics.

Mr Knudsen, an ex-army officer turned customs official who is also an economics graduate, is adamant that the 10 per cent figure is too high. But he admits that the cash lost is undoubtedly more than the EU's own reported figures - which are based almost entirely on auditing of agricultural spending.

One of the problems in obtaining an overall view about the level of EU fraud is that reported frauds in the EU's structural aid programme

are virtually non-existent. The structural aid programme accounts for about a quarter of the EU budget but the detailed mechanisms to record fraud have never been put in place.

Another problem is the stance of the Court of Auditors. This sees its role as inquiring into the details of specific areas of EU spending rather than looking at financial irregularities in a more generalised way.

At Uclaf Mr Knudsen has identified as a priority the job of co-ordinating actions by several member states in fighting fraud - especially involving cross-border transfers or manufactured goods or agriculture products.

These cases may cover not just EU spending but examples of where European countries are missing out on revenues by failing to collect taxes on goods such as imported contraband cigarettes.

Many of the 90 cases Uclaf is investigating involve efforts to bring together police, prosecutors or customs investigators in a range of countries. However Mr Knudsen criticised the "incredible slowness" of legal procedures across Europe which he said can sometimes lead to a delay of six months in getting a justice ministry in one country to release evidence to a second country with a view to aiding in a prosecution.

With only a handful of cases involving EU fraud reaching trial each year, Mr Knudsen said the EU needed to show greater urgency over fraud.

Mr Knudsen is keen to refute charges that Uclaf will concentrate on high-profile investigations.

Just as important, he says, is work on preventing fraud by looking at possible loopholes in the EU's spending and administrative rules.

UN condemns fighting in Bihac

By Laura Silber in Belgrade, Bruce Clark in London and agencies

The UN Security Council, meeting in emergency session after a joint request by Bosnia and Croatia, yesterday condemned the escalation of fighting in Bihac and demanded that Serbs in Croatia stay out of the conflict in north-west Bosnia.

In a statement read at a formal session, the council said it "views with alarm the escalation in recent fighting in the Bihac area, and the flow of refugees and displaced persons resulting from it". To this end the council demanded that "all parties and others concerned, and in particular the Krajina Serb force fully respect that border".

In northern Bosnia, the Serbs appear to be set on punishing the Moslem-led government army for its recent offensive by reducing Bihac to a small, deprived outpost, as has happened with the Moslem enclaves to the east.

Bosnian government forces went on the offensive yesterday near Bijeljina, in the north-east and around Mostar in the south-west. Several projectiles fell on the Holiday Inn where many foreigners stay in Sarajevo.

The fighting will be one of the main preoccupations of ministers from the nine members of the Western European



A Bosnian Serb soldier passing an armoured car wrecked in heavy fighting near Bihac

Union (WEU) who gather at Noordwijk in the Netherlands today to discuss how Europe could take more responsibility for defence without US help.

The U.S. increasingly out of step with its European allies over Bosnia, has taken the lead

in supporting an appeal from the Bosnian and Croatian governments for a tougher UN policy to protect Bihac. Its decision to withdraw from the enforcement of the arms embargo against the Bosnian government entered force yesterday amid confusion about what it would mean.

Nato officials said it had not been worked out how the US could continue to co-operate with an arms embargo against most ex-Yugoslav republics while letting weapons proceed

to Bosnia. Since arms shipments to Bosnia are bound to pass through Croatia, US inspectors would have to make hard judgments about the ultimate destination of any cargo they discovered.

France, the main advocate of greater European independence in defence, is expected to redouble its efforts to persuade the WEU to commit the same necessary to develop its own satellite intelligence. A recent study said it would cost the WEU about \$11bn to establish a network of spy satellites.

Britain has been doubtful of the need for this. Under its special relationship with Washington, it is the only European ally to receive raw satellite intelligence from the US.

However the new US stance must that any data on arms shipments to Bosnia would be classified as "US only", has brought home to all European countries, including the UK, the drawbacks of dependence.

Also attending the WEU meeting will be the nine ex-communist nations which are "associate partners" of the WEU. Supporters see the WEU as a vehicle for drawing ex-communist states into the western security system without upsetting Russia. However, nations like the UK and Portugal have warned against this approach, saying that it would run into understandable objections from both Moscow and Washington.

Coalition closes ranks for Kohl poll

By Christopher Parkes in Frankfurt and Michael Lindemann in Bonn

Germany's coalition party leaders and managers struggled at the weekend to prevent breaches in the ranks or other mishaps which might hurt Mr Helmut Kohl's chances of being re-elected chancellor in tomorrow's Bundestag vote.

With a mere 10-seat parliamentary majority they can afford no more than four defections or absences if Mr Kohl is to be assured of success in the first voting round by gaining the required absolute majority of 337.

Party managers are concerned that anything other

than a first-round win could raise further questions over the coalition's ability to govern and thus weaken Mr Kohl's authority.

Squabbling Free Democrats (FDP), the junior coalition partners, were told by their leader, Mr Klaus Kinkel, that they would be taught how to behave if they did not stop arguing over cabinet seats.

Mr Günter Rexrodt, current FDP economics minister, emerged at the weekend as the next victim of internal FDP dissent which has already led to rifts with prominent members including the former economics minister, Mr Jürgen Möllemann.

Mr Rexrodt said he believed

his cabinet future was in doubt although he had not been told anything official.

"The mood is very agitated in the party and there are not many signs of human warmth," he told a newspaper. The FDP is expected to have only three seats in the new government instead of four, although the distribution of the portfolios will not be announced until after the election of the chancellor.

Mr Heiner Gelseler, a senior Christian Democrat (CDU) party manager, warned that a defeat for Mr Kohl could lead to fresh federal elections, implying that the FDP, which lost 32 of its parliamentary seats in last month's poll,

might suffer an even worse fate in a new vote.

Meanwhile, Mr Wolfgang Schäuble, the CDU parliamentary leader, summoned all 304 CDU Bundestag members to Bonn today for a "roll call". Mr Schäuble said he was determined to avoid any risk of missed aircraft or traffic jams interfering with the chancellor's election.

In talks on the government's programme, concluded in record time on Friday, the coalition parties agreed to relax nationality laws so that foreign children born in Germany will be able to hold German nationality.

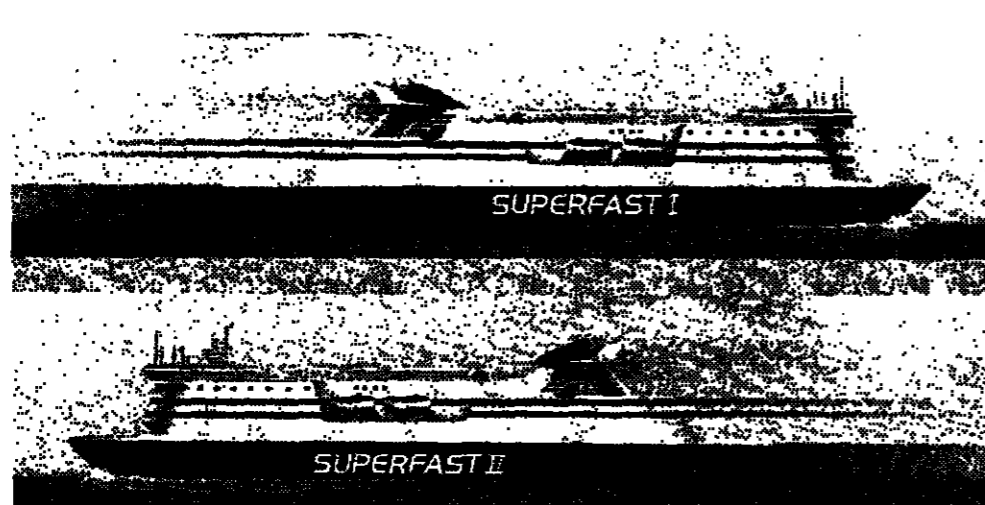
Measures which would make it easier to integrate the 6.8m

foreigners living in Germany had been the most thorny issue during the coalition negotiations.

The changes, made known at the weekend, were at least a partial victory for the FDP, which had to overcome resolute opposition from the Christian Social Union (CSU), the more conservative Bavarian sister party of Chancellor Kohl's CDU.

One of the child's parents must have been born in Germany and both parents must have been resident for at least 10 years before the children can qualify for German nationality, according to weekend press reports. See editorial comment.

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INTERNATIONAL NEWS DIGEST

Gaza bombing: over 150 held

Palestinian police arrested more than 150 Islamic Jihad activists in the Gaza Strip over the weekend following Friday's suicide bombing outside a settlement in the Gaza Strip which killed three Israeli reserve officers. Israel's prime minister, Mr Yitzhak Rabin, continued, however, to press the Palestinian Authority to act more rigorously to prevent such attacks on Israeli soldiers and civilians by fundamentalist groups opposed to the peace agreement.

Those arrested included a brother of the Islamic Jihad leader, Sheikh Abdallah al-Shami. But most of the organisation's senior figures are reported to have gone into hiding. After an earlier suicide bombing in which 22 passengers were killed on a Tel-Aviv bus last month, the Palestinian police arrested hundreds of activists, but soon released them all without charge. The Israeli Cabinet has eased restraints on the use of "physical pressure" by its interrogators on suspected terrorists. *Eric Suter, Jerusalem*

Crackdown on Chinese CDs

Authorities in China's Guangdong province reported at the weekend that they had cracked down on the city's 19 compact disc producers in an effort to stamp out piracy. Two producers had been suspended for "copyright violations" and 11 others had been required to "get rid" of their counterfeit discs. Six producers had passed inspection. According to China Daily some 7,700 stores selling CDs in Guangdong were inspected and 1,380 pirated discs seized. The reported crackdown coincides with increased international pressure on China to stamp out widespread intellectual property rights violations. US officials last week concluded the latest in a series of negotiations with China aimed at bringing it into line on the copyright issue. The US has made it clear that China's accession to the GATT depends on real progress in stopping violations. *Tony Walker, Beijing*

Thai steel monopoly to end

Thailand is set to breach a steel monopoly by allowing new entrants into the market. A previous administration had promised in 1989 a 10-year protection to Sahaviriya Steel Industry. But with demand continuing to outstrip supply, the government has persuaded Sahaviriya to co-operate in allowing more steel factories to be built. The move will almost certainly see two powerful local groups move into steel-making: Siam Cement, in a joint venture with Mitsui and Nippon Steel of Japan, expects to build a cold-rolled steel plant, and NTS Steel Group has applied to construct a hot-rolled steel centre. Sahaviriya started hot-rolled steel production early this year at a \$650m plant and is scheduled to begin cold-rolled steel production early next year. *William Barnes, Bangkok*

Iran takes Azeri oil stake

Azeri and Iranian officials said over the weekend that Azerbaijan has agreed to give Iran a 5 per cent stake in an international consortium for developing Azeri oilfields in the Caspian Sea. The agreement, reached in Baku, the Azeri capital, will give Iran a quarter of Azerbaijan's 20 per cent stake in the \$700m deal in exchange for financial and technical assistance. Speaking on Radio Teheran, monitored by the BBC, Mr Gholamreza Aghazadeh, Iran's oil minister, said he expected Iran to invest between \$300m and \$350m in the project.

Azeri officials told the Russian news agency Interfax that Iran had been brought into the deal because of Azerbaijan's inability to contribute its share of the financing. The project began in September when Azerbaijan signed an agreement with a consortium of eight western oil companies, led by British Petroleum, to develop three oil and gas fields in the Caspian Sea. The consortium is expected to invest \$600m-\$800m to produce 40m barrels of light oil. *Christina Freedland, Moscow*

Caracas takes control of bank

The Venezuelan government has taken control of Banco Andino, a small commercial bank formerly owned by private investors. It was announced at the weekend. This brings to 12 the total number of banks the government has intervened in since the beginning of this year. Venezuela's banking crisis erupted last January when Banco Letho, one of the country's largest banks, failed. The government has also taken over hundreds of subsidiaries of these financial institutions. Banco Andino will apparently remain open under the control of the state-owned Banco Industrial de Venezuela (BIV), which bought 73 per cent of the troubled institution's shares for a nominal sum. *Joseph Mann, Caracas*

Cardoso candidates confident of power

Strong election showing will strengthen hand of Brazil's next president, writes Angus Foster

When Brazil holds state governor elections tomorrow Mr Fernando Henrique Cardoso, who takes office as president on January 1, is likely to see his supporters cruise to victory in the most important states. His own centre-left Social Democracy party (PSDB) is also expected to perform strongly and seal its emergence as a new force in Brazilian politics.

Elections are being held in 18 of the country's 27 states where there was no clear winner in last month's first round. Mr Cardoso, who as finance minister launched a currency which tamed inflation, won the presidential race easily. Victories for his supporters in the gubernatorial elections will considerably add to his political clout next year.

His advisers are increasingly jubilant that PSDB candidates will win in the three key states of São Paulo, Rio de Janeiro and Minas Gerais. These states alone account for 43 per cent of the country's voters, and more than 60 per cent of GDP. They are also the

most influential politically and, because state governors hold influence over congressmen, Mr Cardoso will be guaranteed a strong voice in Congress.

São Paulo, the country's most important state, looks set to be won by Mr Cardoso's long-term ally and PSDB leader Mr Mário Covas. He has a big advantage over his challenger, a populist local politician who, among other colourful claims, once said he would solve the capital's traffic problems with the help of God.

The state, home to more than half the country's biggest companies, is also home to a big potential time bomb, the state bank Banesp. The bank has been abused by politicians for so long that it has a bad loan ratio five times higher than private sector banks. Mr Cardoso needs to sort out the state bank sector to avert a banking crisis and expensive federal support. Mr Covas may not agree to all Mr Cardoso's recommendations, but is thought to be looking at ways to negotiate changes.

The expected victory in Rio de Janeiro for the PSDB's Mr Marcello Alencar will also give Mr Cardoso a strong mandate to attack the city's problems, especially drugs and economic decline. The army is preparing an offensive against Rio's drug traffickers and was also to appear today on the streets of Rio to ensure an orderly vote.

In other important states, PSDB candidates are clear favourites in Minas Gerais and the big northern state of Pará. The Liberal Front (PFL), part of Mr Cardoso's election alliance, is almost certain to win the main north-east state of Bahia and consolidate the powerbase of Mr Antônio Carlos Magalhães, the state's most powerful politician.

The only possible setback for Mr Cardoso is in the southern state of Rio Grande do Sul. Mr Cardoso's choice, Mr Antônio Brito, faces a late challenge from a Workers' party (PT) candidate. Opinion polls suggest the two are neck and neck.

The strong showing of candidates

linked to Mr Cardoso partly reflects optimism about his prospects as president. Candidates have been rushing to seek his blessing and stress that states which elect his allies have a better chance to benefit from the economic growth which many expect a Cardoso government to bring. The new currency, the Real, won Mr Cardoso his election and is now winning votes for his allies by keeping prices under control.

Mr Cardoso's popularity should also ensure the emergence of the PSDB as one of the most powerful political parties. As well as holding the presidency, it looks set to increase its number of state governors from 1 to 6 - second only to the Democratic Movement (PMDB). The PSDB, which Mr Cardoso helped found in 1983, also elected enough congressmen in last month's elections to make it the third largest in Congress.

This is important because it gives the PSDB a strong negotiating position to build a coalition in Congress. Before the elections, there were fears

that Mr Cardoso would need to compromise to guarantee the support of its larger alliance partner, the right wing PFL. Instead, Mr Cardoso should have considerable autonomy from PFL leaders like Mr Magalhães, so long as his popularity remains high.

Mr Cardoso's main presidential challenger, Mr Luiz Inácio Lula da Silva of the left wing PT, did poorly in the elections. But his party may be close to a breakthrough. The PT, which has never won a race for governor, has candidates with good chances of winning in the federal district of Brasília and the small state of Espírito Santo. A third candidate is neck and neck in Rio Grande do Sul. The PT is in growing strength, helped by its reputation for integrity and by disillusionment with old-style politicians who relied on corruption and patronage. Its congressional strength increased by a half to 54 members following last month's elections and it is expected to form the nucleus of opposition to Mr Cardoso.

Stargate sets sci-fi film bandwagon rolling

A cult movie has sown the seeds for Hollywood's latest passion, says Alice Rawsthorn

When the cast and crew of Stargate celebrated its US premiere two weeks ago, the most they hoped was that their clever little sci-fi film would become a steady cult success.

Stargate, starring James Spader and Kurt Russell as intrepid adventurers who fall foul of a sadistic villain played by Jaye Davidson, has become the hit of the US autumn season. It grossed \$16.7m in its opening weekend, a record for a Halloween movie. A fortnight later it still tops the Variety league after taking \$34.5m.

Its success, following so shortly after that of Steven Spielberg's epic Jurassic Park, has whetted Hollywood's appetite for science fiction. The seventh Star Trek movie opens in the US on Friday and dozens of other sci-fi movies are now in production and scheduled to appear next year.

The film industry is notoriously fickle, but science fiction has fallen in and out of fashion in Hollywood to a greater degree than other genres.

Movies about life in outer space first surfaced in the 1930s with the Flash Gordon and Buck Rogers series. Sci-fi reappeared in the trash films in the 1950s only to be eclipsed by the thrill of the real space race in the 1960s. The genre was then elevated to cult status by Stanley Kubrick's 1968 classic, 2001: Space Odyssey, and Andrei Tarkovsky's 1972 masterpiece, Solaris.

It was not until the late 1970s that science fiction became big business. George Lucas led the way in 1977 with Star Wars,

which became one of the biggest grossing movies ever, taking \$235m in the US alone.

By the mid-1980s, however, the genre no longer seemed so fresh. The futuristic films of that era, such as the Terminator series, were classified as "action" movies.

All that changed with Jurassic Park, which has grossed \$356m in the US since it opened last year. It proved to the sceptical ranks of Hollywood accountants that there was an audience for science fiction, just as the success of Dances With Wolves in 1990 had heralded the return of the western.

The digital dinosaurs created for Jurassic Park on the computers of Industrial Light and Magic, the \$80m special effects laboratory founded by George Lucas, also acted as a showcase for the new generation of digital special effects.

These enable film makers to



Kurt Russell in Stargate, top of the Variety league table with takings of \$34.5m so far

create extraordinary visual images at relatively low cost by cutting down on the number of extras, stunt artists and sets needed to shoot a film. James Cameron, director of Terminator and another techno buff, used the computers at his Digital Domain special effects lab to create stun-

ning sequences in True Lies, such as a scene in which Arnold Schwarzenegger "flies" his Harrier jet through Miami's skyscrapers. Thanks to the new technology, George Lucas hopes to halve the cost of shooting the next version of Star Wars to \$50m.

The fantastical quality of

digital images makes them ideal for science fiction and has prompted a number of directors to try out the genre. The new Star Trek will be followed by Judge Dredd starring Sylvester Stallone, Strange Days with Ralph Fiennes, and a film version of the cult cartoon, Tank Girl.

The sci-fi bandwagon shows no sign of stopping. Marlon Brando is tipped to star in an adaptation of HG Wells's The Island of Doctor Moreau. The major studios are competing to sign Luc Besson, the fashionable French director, for Zoltan Bleros, his next \$75m sci-fi epic. Even Stanley Kubrick is making a new movie, AI, a film about artificial intelligence.

If Jurassic Park was the Dances With Wolves of the sci-fi genre, Stargate (which will arrive in Europe with a UK opening in January) looks like The Untouchables.

Another contender is Waterworld, an aquatic sci-fi adventure starring Kevin Costner. But the production has been plagued with problems. The budget has rocketed to \$135m, making it the most expensive film ever.

Oscar Moore, editor-in-chief of Screen, the film industry magazine, said: "Waterworld does have the makings of a disaster. There have been horror stories about it from the start. But you can never be sure about anything in this industry until the movie actually opens."

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Sustained upliftment of underdeveloped communities is a high priority

Dr Chris Stals, Governor of the SA Reserve Bank, speaks to John Spira, Business Editor of a leading Johannesburg newspaper.



Dr Chris Stals

Spira: Speculation over the imminent abolition of South Africa's two-tier currency system has been rife. You've remained steadfast in your belief that exchange control and the financial rand cannot be scrapped in current circumstances. Why?

Stals: If South Africa was prepared to live with the painful adjustments associated with its removal, exchange controls could be abolished immediately. But if exchange control was to be scrapped, the South African rand would have to be supported for several weeks. Who would do so? The Reserve Bank couldn't, because it only has foreign exchange reserves sufficient to cover five weeks of imports.

Spira: Couldn't you scrap the financial rand while maintaining exchange control in all other respects in order to defend the foreign exchange reserves?

Stals: Perhaps so, since the two-tier currency system was introduced to protect the country from boycotts and sanctions, which have since been removed. Foreign attitudes are changing. Most foreign investors are more worried now about South Africa's economic policies than any other issue. If we get these right, we won't need exchange controls on non-residents. But the timing should be right. The worst thing would be to abolish exchange controls and then have to bring them back three months later. The exchange rate market, which establishes the difference between the commercial and financial rands and the yield on investment in South Africa, is the indicator of the level of foreign confidence in the country. The discount of the financial rand to the commercial rand is still 20 percent, while the yield on government stock to residents is 16 percent.

Non-residents are accordingly conveying the message that they want a return which is higher (by some 20 percent) than the 16 percent currently available to residents.

Spira: What militates against the scrapping of exchange control on residents?

Stals: If we abolish exchange control on residents immediately, the Reserve Bank may need anything up to R20 billion in foreign exchange to fund money that may leave the country. Even if half that amount were to flow overseas, prices of assets would go down and interest rates would soar. The Reserve Bank would have to sell foreign exchange in order to meet the demand from residents to invest abroad. This would drastically reduce our foreign exchange reserves and drain domestic liquidity. To limit a possible fall in the reserves and in the exchange rate, we would have to raise interest rates by selling government stock into the market and deliberately raise the cash reserve requirements of the banks. The resultant higher interest rates would check the incentive to take money out of the country, while encouraging foreigners to bring money in. In the process, however, the shock that may be needed to adjust to the new situation could be severe. When, for example, Argentina abolished exchange controls, real wages and salaries dropped by something like 30 percent.

Spira: To what extent has the Reserve Bank been smoothing out fluctuations in the rand's exchange rate? How has this impacted on the reserves?

Stals: The Reserve Bank regularly intervenes in the foreign exchange markets, as well as in the forward market. We believe it is crucial that we smooth out fluctuations in the exchange rate and we need foreign exchange reserves for this purpose. In South Africa, a small market by comparison with some others, the average daily turnover in the foreign exchange market is between \$5 million and \$6 million.

Spira: South Africa's economic recovery appears to have stalled for the time being. What are the background

factors?

Stals: The long recession going back to March 1989 came to an end around the middle of 1993. The economy recovered in the second half of the year and we witnessed a higher growth rate in GDP.

The recovery was fostered by favourable weather conditions, which led to a sharp increase in agricultural output, and higher growth in some industrial countries, which boosted South Africa's volume of exports.

Other beneficial factors included the removal of trade and financial sanctions and the progress made in combatting inflation and restoring financial stability.

In the first half of 1994 the upturn weakened somewhat as the growth in agricultural output levelled off temporarily and output was affected by exceptional circumstances linked to the process of political change. Labour unrest and work stoppages in the pre-election period and a reduction in work-days arising from the large number of public holidays, brought about low growth and even declines in the real value added.

As things stand at present, an array of structural weaknesses continue to impose restraints on the longer term growth potential of the economy, the more important of which are:

- The shortage of skilled manpower.
- The high costs of labour in comparison to skills and training.
- High non-wage labour costs in the form of labour unrest, work stoppages, strikes and stayaways.
- The persistence of uncomfortably high inflationary expectations, despite the success achieved in creating more stable financial conditions.
- The large and increasing involvement of government in the economy.
- The high tax burden on individuals.
- The unsustainable size of the government deficit before borrowing.
- The low level of domestic saving, and high dissaving by government.
- Uncompetitive conditions leading to inefficiencies.
- An anti-export bias in the foreign trade policy structure.

Spira: How will these weaknesses be overcome?

Stals: Considerable emphasis was placed in the 1994-95 Budget on the government's Reconstruction and Development Programme. In view of the large number of unemployed persons and widespread poverty in South Africa, it is essential that the sustained upliftment of underdeveloped communities and areas remains high on the list of the government's priorities.

South Africa's acute unemployment problem can be alleviated under conditions of accelerated, labour-absorbing, economic growth. Sustainable, high, employment-creating economic growth that will be to the benefit of all South Africans will, however, be possible only in a stable financial environment. A more equitable distribution of wealth and income is difficult, if not almost impossible, to accomplish under conditions of high inflation.

Fortunately, the inflation rate has recently been brought down to single-digit levels last prevailing in the early 1970s. However, relative to South Africa's main trading partners, the current inflation rate is still too high. Measured over four quarters, the growth rate in real unit labour costs actually turned negative from the first quarter of 1993, because labour productivity growth exceeded the lower rates of increase in the real remuneration per worker. The observed increases in labour productivity were partly due to the retrenchment of workers in the formal sector of the economy as part of the rationalisation programmes of the business community.

The underlying growth in the productivity of South African workers, however, remains poor. Increases in unit labour costs do not bode well for inflation and could lend support to higher inflation expectations.

Spira: From what you have indicated, labour-related problems are a major factor militating against low-infla-

tion economic growth.

Stals: Indeed so. And recent aggressive wage demands, combined with the depreciation of the rand's exchange rate, may frustrate the authorities in their efforts to curb the general rise in prices further. Industrial action, organised labour protest and unrest may also have the potential to curtail the growth of the economy. These actions thereby not only lead to higher price inflation but also reduce the demand for labour and neutralise at least partly the labour unions' efforts to raise the real wages of their members.

Such actions accordingly encourage the development of a more capital-intensive production structure, affect business confidence adversely, and hold back private-sector investment. Disorderly labour conditions are therefore detrimental to the objective of high employment-creating economic growth. By restraining output growth, such labour actions also limit the ability of the authorities to achieve the socio-economic upliftment of the population.

Spira: How is the problem to be solved?

Stals: President Mandela has called for closer co-operation and understanding between government, business and labour. I fully endorse this plea. The Reserve Bank believes that it would be easier to reach such closer co-operation in an environment of overall financial stability.

Spira: Another major impediment to economic growth seems to be in the sphere of government finances. What is the situation here?

Stals: The public-sector borrowing requirement reached an exceptionally high level in fiscal 1993-94. To some extent this was due to special transfers which did not affect the domestic capital markets. Although no difficulties were experienced in financing the shortfall on the Exchange Account, the larger size of the borrowing requirement could have a crowding-out effect on private investment in an environment of more vigorous economic growth.

The high borrowing requirement of the government naturally also led to a significant increase in government debt and in the costs of servicing the debt.

The government has indicated that the vast bulk of the costs of its Reconstruction and Development Programme will be financed from sources which do not require a heightened level of borrowing, nor an increase in taxation. Hopefully it will be successful in achieving this objective.

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FT correspondents report from the Apec meeting in Jakarta

China 'losing patience' over WTO

By Peter Montagnon and Guy de Jonquieres

Mr Long Yong Tu, China's chief international trade negotiator, is running out of patience. He says he is reaching the limit of his ability to negotiate on his country's application for membership of the new World Trade Organisation.

If the year-end deadline for completion of the talks was to be met, he says, leaders in Beijing and Washington would have to settle the political differences which he blamed for holding up progress. "Our negotiations are coming to a critical stage," he says. "Now it is very important to get a political decision because, just like two guys who are having a quarrel, we need someone higher up to say, okay, you should work out this thing."

Mr Long complains bitterly about the US position, which he says is the biggest obstacle to Beijing's eight-year effort to rejoin the multilateral trading

system. He says Washington has failed to spell out exactly what it wants from Beijing and repeatedly asks for more. "They tell us what they want, and we say 'Okay, we accept'. Then they say that's not enough, we have to do something more. It is as if this WTO belongs to the US and they can veto any country, even as large as China."

Mr Long said: "They are a little short-sighted. They are looking at the immediate commercial benefits. China's WTO membership should be a strategic long-term thing." He says Ms Wu Yi, China's foreign trade minister, offered a package of "important concessions" to Mr Mickey Kantor, US trade representative, at a meeting yesterday in Jakarta where the Asia Pacific Economic Co-operation summit opens today. Though Beijing hoped the offer would create a breakthrough in the negotiations, the US had failed to respond.

According to Mr Long, the concessions included:

- Publishing details of all China's

import quotas, covering what Beijing calls sensitive products such as chemical fertiliser. This meets a long-standing US demand and, Mr Long says, was the crux of Beijing's differences with the US.

- The extension of foreign banking rights to Beijing and 10 provincial cities, in addition to 13 coastal cities already proposed.

- Permission for foreign banks to transact business in local currency on an experimental basis after WTO entry.

Mr Long concedes the offers do not fully meet US demands and hints at possible further concessions, though he says this would be difficult because it requires complex co-ordination by Chinese ministries. However, Beijing was not prepared to offer them after the end of this year - even if the US agreed to extend the negotiations - as it has recently said it may be ready to do.

The two sides agreed yesterday to resume bilateral talks next month, after a US Congress vote on the Uruguay

Round. But Mr Long says that if the talks drag on beyond January, Chinese political support for WTO membership will wane, and Beijing fears Washington will seek ever more concessions.

"The reason we want to set a time limit is that we don't want to be squeezed by them indefinitely. If they want to use Gatt [General Agreement on Tariffs and Trade] membership as a kind of leverage to hold us hostage, they are wrong. We are really at the end of our patience. We know China can do very well without Gatt."

Mr Long says it would be "childish" of China to make success for its WTO application a condition of its support for proposal to set a firm date for trade liberalisation in the Asia-Pacific Economic Co-operation forum.

"But in actual practice, I really do think there is a linkage," he says. If Apec eventually opened its markets to the rest of the world on a reciprocal basis, China could lose the full benefits while it remained outside Gatt.

Bhutto arrests father of opposition leader

By Stefan Wagstyl and Farhan Bokhari in Islamabad

Ms Benazir Bhutto, the Pakistani prime minister, yesterday ordered the arrest of the 75-year-old father of opposition leader Mr Nawaz Sharif, on allegations of tax evasion.

The detention of Mr Mohammed Sharif is the latest development in the bitter battle between Ms Bhutto and Mr Nawaz Sharif which has overshadowed politics for five years.

The move came on the eve of a joint session of parliament, the first since she took power last year, at which President Farooq Leghari is to make a key speech. Mr Nawaz Sharif's supporters last night promised to engulf the meeting with protests. The Federation of Pakistani Chambers of Commerce

and industry warned of "a severe reaction" from businessmen unless his father was released.

Mr Mohammed Sharif was arrested by the Federal Investigation Agency, which alleged tax evasion of income of about Rs100m (\$2m). The agency also charged, but did not arrest, Mr Nawaz Sharif's two brothers, Mr Abbas Sharif and Mr Shahbaz Sharif, and his son, Mr Hussain Nawaz Sharif.

Mr Mohammed Sharif, a self-made industrialist, is regarded as the architect of Mr Nawaz Sharif's rise to power. His arrest follows a sustained attack on the family business empire by the Bhutto government, which has ordered tax and fraud investigations by the Federal Anti-Corruption Committee and the Federal Investigation Agency.

Mr Nawaz Sharif yesterday denied the tax fraud charges. "The regime is totally rotten and in panic on the eve of the joint session of parliament," he said.

The arrests come amid factional violence in Karachi, the commercial capital, where about 20 people have died since last Thursday, and an armed uprising by tribesmen in the north. The government at the weekend also suffered a serious foreign policy defeat when it failed to secure the support of other Islamic states for a motion on the troubled region of Kashmir at the United Nations General Assembly.

- The State Bank of Pakistan, the central bank, at the weekend cut the maximum bank lending rate from 19 per cent to 17.5 per cent, to promote investment and economic growth.

East Timor protests embarrass Indonesia

By Manuela Saragosa

The issue of East Timor is threatening to take the gloss off Indonesia's hosting of the Asia Pacific Economic Co-operation summit, after rioting shook the East Timorese capital, Dili, this weekend and a group of East Timorese demonstrators climbed into the US embassy compound.

About 30 East Timorese protesters have been in the compound since Saturday morning and are demanding to speak to President Bill Clinton, who arrived in the Indonesian capital last night.

Meanwhile, two US journalists trying to enter East Timor without permission have been arrested by Indonesian police.

US officials and other Apec delegates have said the issue of East Timor and human rights in Indonesia will not be raised during the one-day Apec summit tomorrow. "This event is not the forum to discuss it," said Mr Ali Alatas,



East Timorese riot police charge protesters in the streets of Dili yesterday

Indonesia's foreign minister, said.

However, Mr Clinton is expected to discuss it with President Suharto during his official visit after the summit.

In Dili at the weekend, East Timorese demonstrators took to the streets shouting political slogans. According to eyewitness reports relayed to Australian officials, one East

Timorese was killed by an Indonesian but there were no deaths in the protest.

At the US embassy, East Timorese protesters are demanding that the Indonesian government hold a referendum in East Timor, which was invaded by Indonesia in 1975 and annexed a year later.

The embassy says it has been in contact with Indonesian authorities about the situation. "We've been consulting with the Indonesian authorities and been assured that there will be no retribution taken," said Mr Warren Christopher, the US secretary of state, in Jakarta on Saturday.

Reports indicate that the situation in Dili has calmed down but the sit-in by protesters could go on for days.

Apec urged to broaden global trade role

By Peter Montagnon and Guy de Jonquieres

The Asia Pacific Economic Co-operation forum should work towards the launch of a new multilateral round of trade liberalisation negotiations to follow the Uruguay Round, Mr Supachai Panitchpakdi, Thailand's deputy foreign minister, said in Jakarta.

His remarks are one early sign that Apec could lead ultimately to the inauguration of a new round of multilateral trade talks and that some governments in the region are keen to resist pressure to turn Apec into a regional trading bloc.

"Then we can have Apec playing a pivotal role in global trade liberalisation," Mr Supachai said. His proposal, made informally at the Apec ministerial meeting, drew support from Malaysia.

But the proposal also reflects the inability of Apec trade and foreign ministers to agree a definition for regional free trade in the run-up to tomorrow's summit. Several Asian countries argue that Apec should be concerned with principles, leaving the actual mechanism for trade liberalisation to be decided separately.

Mr Supachai said the proposal by Apec's eminent persons group for full trade liberalisation by 2020 contained "a lot of hidden suggestions and nuances" and the possible consequences had not been fully thought through.

Delegates said Apec would almost certainly have to defer until next year any decision on the tricky but fundamental question of how far Apec was to develop into a formal free trade area with common barriers to the rest of the world that could then be dropped in return for reciprocal concessions.

Though the Apec leaders will be left to deal simply with an outline vision tomorrow, it would take what one official called "heroic political decisions" to agree even a broad and non-binding timetable for trade liberalisation.

Australian claims irk Thailand

By Peter Montagnon

Australia's prospects for winning defence orders from Thailand may suffer after a dispute in Jakarta over allegations by Mr Gareth Evans, foreign minister, that Thai businessmen and soldiers were harbouring Khmer Rouge guerrillas.

Australia tried yesterday to calm the row, which blew up after autopsies revealed that an Australian, Mr David Wilson, and two other tourists were bludgeoned to death by Khmer Rouge guerrillas in Cambodia in September.

After a meeting with Thailand's new foreign minister, Mr Thaksin Shinawatra, Mr Evans said his evidence of Thai support for the guerrillas was out of date, and he now accepted that controls on immigration and arms, guns and logs, had been tightened up. The bilateral relationship was now "in very good shape", he said.

However, Thai officials said concern remained about Australia's use of old evidence to make the allegations. Mr Chuan Leekpai, prime minister, might tell the Defence Ministry not to place defence orders with Australia, they said.

Carmakers anticipate boom in Chinese market

By Kevin Done, Motor Industry Correspondent

Around 30 of the world's leading carmakers are to present plans to the Chinese government this week for the development of an ambitious small family car project.

The Family Car Show in Beijing, organised by the Chinese authorities, is one of the best opportunities for carmakers from west Europe, the US and Japan to establish a presence in the Chinese car market, which is expected to set one of the fastest growth rates in the world car industry during the next two decades.

Mr Helmut Werner, chief executive of Mercedes-Benz, the automotive subsidiary of Daimler-Benz of Germany, said annual new car registrations in China were expected to grow from around 450,000 to more than 2m by 2001.

"China is an important market of the future" which would experience a substantial growth in motor vehicle use, said Mr Werner.

Mercedes-Benz, the German car and commercial vehicle maker, is seeking to enter the Chinese car market with its Family Car China project for a 1.3 litre, petrol-engined, five-seater car.

It proposes an initial capac-

ity to produce 250,000 cars a year. The basic version would have a price of around \$10,000, and Mercedes-Benz is offering a number of versions including a seven-seater MPV (multi-purpose vehicle), a pickup and a light van.

Mr Alex Trotman, chairman of Ford of the US, the world's second largest vehicle maker, which is also competing in the Family Car Show, met China's vice premier Li Lanqing in Detroit last week, to discuss Ford's plans for establishing technical and manufacturing centres in China.

Ford is seeking to strengthen its case by establishing a series of automotive parks joint ventures in China, but it said it was "eager to establish vehicle assembly projects in China at the earliest opportunity".

The fierce competition in Beijing this week among carmakers coincides with the publication of a report that urges caution, however, on vehicle producers seeking to gain access to the emerging car markets of the Pacific Rim and China.

The study by the Economist Intelligence Unit forecasts a 55 per cent growth in sales of new vehicles in the region during the next seven years from 4.75m in 1993 to 7.36m in 2000. It warns that much of this

growth will not be accessible to outside investors for a decade or more, however.

"As the mature markets of the world approach saturation, as the levels of competition rise and unit profit margins decline, and as the burden of overcapacity grows, the attraction of these emerging markets is in danger of being overstated by vehicle manufacturers anxious to find a new route into volume growth."

Congestion and pollution are already problems in the region, with Bangkok suffering the world's worst traffic congestion. Investment in the infrastructure of these countries is far behind the growth in motor vehicles, the report says.

The passenger car market usually begins to grow quickly when GDP per capita reaches around \$5,000 a year, but it would take China at least 45 years to reach this level, and the position is far worse in India and Vietnam.

The main areas of opportunity in the markets of the Pacific Rim and China are currently in components and commercial vehicles, says the report.

The Automotive Sector of the Pacific Rim and China: Moving into the Fast Lane. EIU's Economist Intelligence Unit, 15 Regent St, London, SW1Y 4LR.

Mahathir's Asia line delights Japanese

Malaysia's prime minister calls for Asia to say No to the west and tells Tokyo to stop apologising for wartime atrocities, reports Emiko Terazono

Dr Mahathir Mohamad is enjoying unprecedented media exposure in Japan. During recent weeks, the Malaysian prime minister has appeared on Japanese national television and in mainstream dailies; his face covers popular weekly magazines and his name decorates Tokyo's big bookshops.

The spotlight on Mr Mahathir has helped sales of his new book, *An Asia that Can Say No: A Card against the West*. It is co-authored with Mr Shintaro Ishihara, the popular rightist politician and author of a controversial best-seller, *A Japan That Can Say No*, in which he claimed America's prejudice towards "yellow people" was behind the US-Japan trade friction and called for Japan to stand up against US demands. The new publication rejects increasing western economic and political influences in Asia and maintains that Asian nations, which share the same values, are distinct from the US and Europe.

The Apec meetings in Indonesia have raised interest in the region and the premier among the Japanese public, along with Dr Mahathir's recent comments endorsing Japan's bid for the UN Security Council seat. Moreover, his disapproval of Japan's unceasing apologies over the atrocities during the second world war has also been applauded by Japanese bureaucrats and politicians.

Others have latched on to the media's Mahathir drive. Mr Kenichi Ohmae, the management guru and former head of business consultants McKinsey in Japan, has published a book on Dr Mahathir, and a biography has also hit the shops. At a time when Japan the country is groping for a bigger political and economic role in Asia, many Japanese have embraced the outspoken Dr Mahathir as a representative of the region who is allowing

Japan to break from its past. Dr Mahathir's message is plain enough. He wants Japan to play a leading role in Asia, and stand up for the region in the international arena - in the Group of Seven industrialised nations meetings and the United Nations.

Aside from his anti-western lamentations, he also lists grievances about Japan's relations with Asia. He criticises Japan

Mahathir also criticises Japan's indecisiveness towards setting up an East Asian Economic Caucus

for closing its markets to Asian imports and for the lack of technology transfers. His foremost criticism is Japan's indecisiveness towards forming an East Asian Economic Caucus, a regional economic bloc. The plan groups together Asean and north-east Asian countries including Japan and China, but excludes US, Canada and Australia.

Dr Mahathir believes Apec should be a loose grouping mainly concerned with helping development of Asia-Pacific's weaker countries but that it has been taken over by the US, which already has its own regional trade bloc, Nafta. He says small Asian countries need the caucus to counter "closed" regional trade blocs like the EU and Nafta and to raise their profiles in the global arena.

The caucus scheme has angered the US, and Japanese government officials and business groups have been non-committal towards Dr Mahathir's plan, not wanting to upset the US. Mr Mahathir acknowledges Japan's deep "affinity" with the US, and acknowledges that the US has

helped Japan achieve its economic success.

However, he says Japan needs to re-evaluate such relations. "The EAEC will take off as long as Japan takes charge," he says.

Mr Mahathir's criticism has pointed out a growing dilemma in the Japanese government. On the one hand many officials and business executives are cautiously seeking a gradual shift in Japan's foreign and trade policy from the US towards Asia.

Such a trend is already apparent in economic relations. The strong yen has prompted industries to move manufacturing operations to Asia, boosting investments, while the increasing economic affluence of the region has made it the largest export destination for Japan. Last year, Japan's trade surplus with the region surpassed its surplus with the US for the first time. Ten years ago, Japan exported a third more to the US than to Asia - now the balance is the other way.

On the other hand, the US remains the central pillar in foreign and trade policy. Some Japanese officials argue that the country's economic stability cannot be maintained without strong economic ties with the US, and that the international community will not accept a security policy independent from America's. In a recent magazine interview, Mr Ichiro Ozawa, the back-room strategist of Japanese politics, also questioned Japan's budding allegiance with Asia. Where would Japan be without the US, and will Asian countries trust a Japan without America's backing, he asked.

So far, Japan has yet to resolve the debate over whether it is a part of the east or west - an issue which has raged for over a century. However, the economic and political links with the region are becoming too deep to ignore.

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Euro-sceptic MPs split over opposition to legislation raising contribution to EU funds

Tories face new row over Europe

By David Owen

Britain's governing Conservative party faced another damaging row over Europe yesterday, with rightwingers predicting that up to 20 MPs may oppose a controversial new European bill to be introduced in the next parliamentary session, starting this week.

But Tory Eurosceptics are themselves split on how to respond to the bill - which will increase Britain's contributions to the European Union's budget.

Some Maastricht rebels are arguing that Eurosceptics should not vote against the forthcoming measure, known as the European Community (finance) bill, but should keep their powder dry until the 1996 EU intergovernmental conference. They predict

that no more than six Conservatives will end up opposing this year's bill.

As MPs began preparing to return to Westminster for Wednesday's Queen's Speech to parliament, rumours continued to circulate about a possible challenge this month to prime minister John Major's leadership.

While some rightwingers would welcome such a challenge, others yesterday dismissed the prospect.

Mr Major will tonight use his annual speech at the Lord Mayor's banquet in London to deliver a wide-ranging address, covering the economy, domestic issues and Northern Ireland as well as foreign affairs.

Eurosceptics last night responded cautiously to a letter sent to all MPs by Mr Kenneth Clarke, the chancellor of

the Exchequer, seeking to win their support for the forthcoming bill.

Mr Bill Cash, Conservative MP for Stafford, said the arithmetic set out in the letter - which admitted that the measure would result in net costs for the UK - was being given a "very thorough investigation". He said the letter put "the best gloss on an extremely unsatisfactory situation".

Sir Teddy Taylor, Tory MP for Southend East, said it might be counterproductive for ministers to seek to "raise the temperature" in their promotion of the bill. He said Britain's net contribution to the EU was set to rise from £1.7bn (\$2.8bn) in 1994-95 to nearly £3.5bn in 1995-96.

Mr Major secured cabinet backing last week for a battle plan for the bill.

He urged ministers to make clear to critics that the cost was estimated at only £75m next year, and a maximum of £250m by 2000.

Rightwingers acknowledge that their prospects of overturning the government's 14-strong Commons majority and blocking the bill depend on the position adopted by Labour.

Mr Clarke's letter - sent on Friday - emphasised that the UK's rebate, or abatement, which was negotiated by Baroness Thatcher when she was prime minister in the 1980s, would continue.

He admitted that many MPs would wonder why the government had agreed a settlement that increased the revenue that the EU could raise from its member states.

UK NEWS DIGEST

Concern at lottery cash distribution



THE NATIONAL LOTTERY

Tickets for Britain's National Lottery go on sale at about 10,000 retail outlets today. But the National Heritage Department has made known its concern about the slow progress of the work of the National Lottery Charities Board, the body set up to distribute hundreds of millions of pounds of proceeds to charity from the National Lottery over the next seven years. The board, which is likely to be inundated with applications for funds, admitted to a Sunday newspaper yesterday that it did not have a bank account for grant purposes and did not know when it would channel money through to pay grants.

The first of the weekly National Lottery draws will take place next Saturday and the first cheque will go to the National Lottery Distribution Fund at the National Heritage Department on Wednesday week.

The money for the distribution fund will be made up of around 28p from every £1 lottery ticket bought, and five good causes will each get an equal split. Apart from charities the causes are: the arts, the national heritage, a millennium fund and sport.

Visa bids to extend corporate card use

Visa International, the payments organisation, is today launching a bid to change the corporate charge card from being just a way of paying for travel and entertainment to being a general method of buying goods. The idea, which was launched in the US earlier this year, is that a company will use the card to buy low-value items such as stationery and maintenance supplies.

This will sharply cut the cost of dealing with the purchase because much of the paperwork will be removed from the transaction. Research for Visa by Andersen Consulting suggests that the cost of processing a single purchase order and invoice is typically 250p. The billing arrangements should also mean that companies receive more information about where they buy their supplies, offering them the opportunity to rationalise purchasing.

Pilot schemes involving Barclays Bank, Midland Bank and National Westminster Bank are being carried out with 25 companies, including BOC, Anglian Water and Shell.

But the move into general corporate purchasing will require more suppliers to accept Visa cards: the pilot with BOC found that about half of its 1,300 suppliers had to be newly signed up for the payment method.

Economists warn on skills training

The British government should take steps in the Budget to encourage skills training if the UK manufacturing revival is to be sustained. Economists from Lloyds Bank argue, in their latest monthly bulletin, that low skills levels are "probably the single greatest threat to the improved condition of UK manufacturing."

UK manufacturing output has been rising for over two years, and is now growing at close to 4 per cent per year. The bulletin says this reflects the changing nature of the economic recovery, with investments and exports providing more impetus for growth. It predicts that manufacturing output as a whole should accelerate into 1995.

The Lloyds Bank economists, Mr Sheldon Warton-Woods and Mr Patrick Moon, cite these growth rates as evidence that the long-term decline in UK manufacturing has bottomed out. The past 25 years have seen manufacturing's share of UK GDP decline from around one-third to close to one-fifth.

Graduate job prospects improve

Graduate employment prospects in the UK have improved over the past year, a study released today shows. In its annual graduate review, the Institute of Employment Studies found a 4 per cent rise in the number of vacancies for graduates, the first increase since 1990.

The unemployment rate among graduates was 12 per cent, down from 13 per cent in 1993. The institute said the unemployment rate was still much higher than in the boom years of the 1980s, though lower on average than the rate among non-graduates.

This year's good news on the increase in vacancies for graduates is associated with a growing number of employers who reported difficulties in recruiting skilled workers. In 1993 17 per cent of companies said they had trouble recruiting. In 1994 the proportion rose to 30 per cent. The main problems were finding suitable employees with engineering, finance or accountancy skills.

Tiger kills zookeeper

A zookeeper was killed yesterday by a tiger when he entered its enclosure at a zoo with a history of fatal and other attacks by animals including big cats.

Mr Trevor Smith, 33, had gone to clean out the enclosure of a pair of Siberian tigers at Howletts Zoo Park in Bekebourne, near Canterbury in south-east England, when one of them leapt on him and bit his neck.

Kent police said Mr Smith had stroked both tigers moments before one of them turned on him and picked him up by the head. The male tiger then lay on top of the keeper and had to be beaten away with a spade by another zoo employee.

The zoo, which is owned by millionaire Mr John Aspinall, has been dogged by deaths and maulings of both keepers and visitors in recent years.

Magnet advisers agree to settle case

Advisers and bankers to the failed management buy-out of Magnet, the retailer of fitted kitchens, have agreed to settle court cases in which damages could have been as high as £1bn, Robert Corne writes.

Parties involved include Bankers Trust, the US bank which led the banking syndicate, G.E. Capital, one of the syndicate's members, Arthur Andersen, adviser to Magnet's management, and Arthur Young, Magnet's auditor.

All parties to the dispute have signed a settlement agreement that will come into effect when one undisclosed condition is met. Those close to the dispute say a full settlement could be in place by the end of the month.

The companies involved refuse to discuss the settlement terms. But the payment expected to be made by Arthur Andersen to Bankers Trust is thought to be less than £50m. Arthur Young, now part of Ernst & Young, is expected to contribute to the settlement.

The £528m Magnet buy-out in 1989 was the largest ever and the first involving "mezzanine" finance.



Britain's largest trainmaker, ABB Transportation, has unveiled the Eurotram, which ABB project manager John Swanson (left) and marketing manager John Clark hope will provide significant orders to replace diminishing train business, Chris Tighe writes.

A 250m order for 26 Eurotrams is nearing completion at ABB's York works for the French city of Strasbourg, where a new tram service will be inaugurated next week.

The sleek, glass-fronted vehicle is the first tram to be made at the 150-year-old York works.

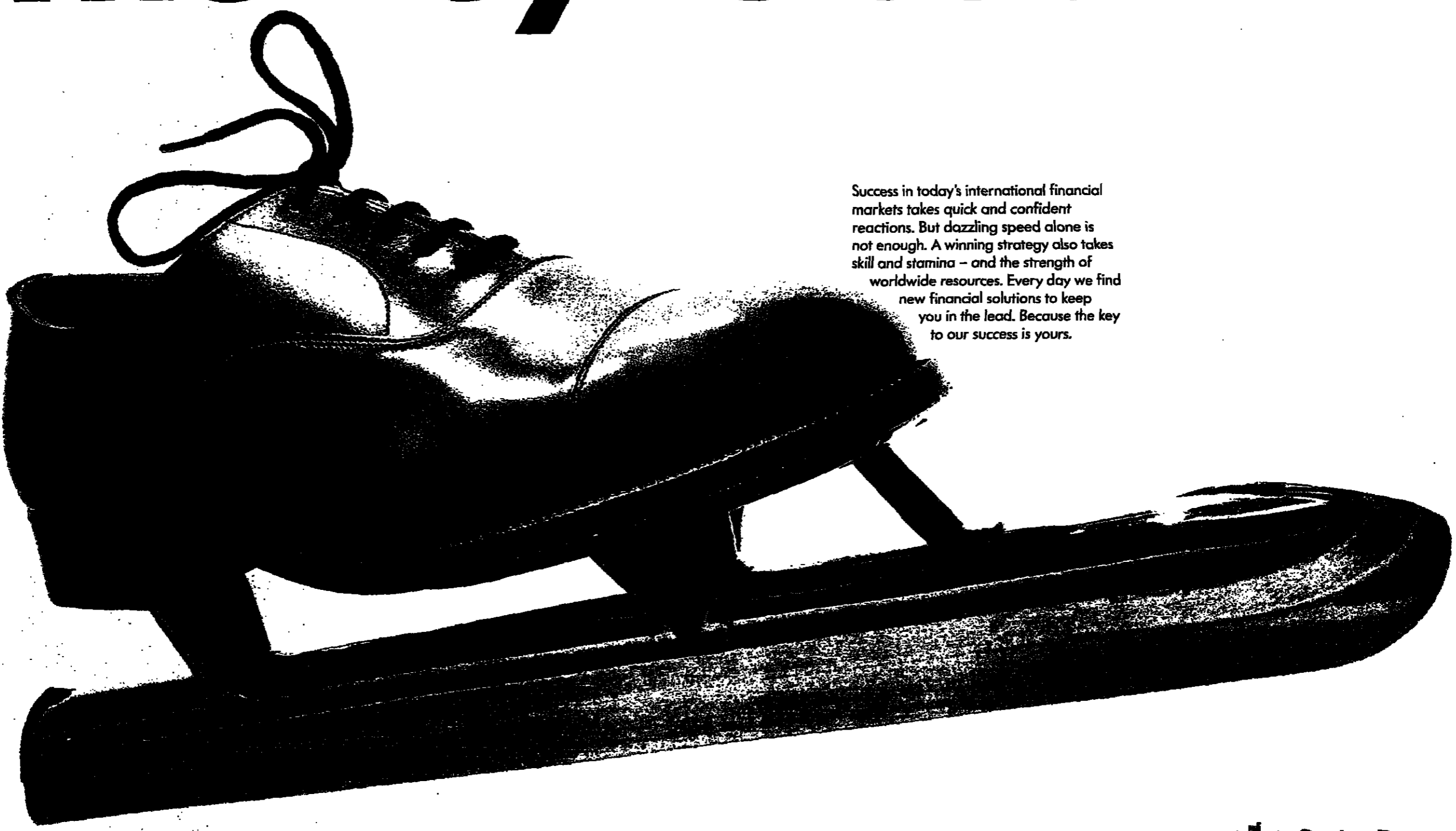
Securing more train or tram orders in the near future is highly important for the works. Its order book ends next October when it finishes its last British Rail order, worth £150m, for 188 Networker commuter trains.

The imminent completion of the Strasbourg tram order led to the announcement in September of 289 redundancies, a

quarter of the workforce. The jobs will go by the end of this year.

ABB believes the electrically-powered Eurotram offers a potentially big market opportunity in Britain and continental Europe. "The Eurotram is such an excellent product we're very hopeful we'll secure orders," said a company spokeswoman. Cities it is targeting include Milan, Nottingham, Croydon and Leeds, all currently considering tram network development.

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MANAGEMENT

John Lloyd visits a pioneering school which is teaching advanced market economics to graduates

Russia's Harvard gets down to business

Arkady Dvorkovich is one of the stars of the first graduating year of a remarkable university which lives precariously on the 17th floor of a former Soviet institute of great prestige.

Behind him is a blackboard covered with econometric equations. "It's a different way of thinking about life," he says. "That's what is most difficult at first."

Dvorkovich is no longer at the university, but has just dropped by for a chat. The class is on a break and the students sit about comparing notes or smoke in the corridor.

The New Economic School, two years old, is still a pioneer in the teaching of market economics to a new generation of Russian managers, economists and professors.

It is indeed a different way of thinking about life. The Soviet Union trained its managers and economists to be part of a system in which there was no division between state and economy; where the State Planning Agency and the ministries directed inputs and outputs, demand and supply; where choice, quality and convenience were of no interest; where the provision of raw materials and components was handled by one agency, distribution by another, personnel matters by the Communist Party and the trade unions - and the managers left with technicalities.

Economic life thus came to be seen as a series of discrete areas existing within an overall framework of control - oppressive but secure. Economics within this system was, in theory, Marxism and, in practice, keeping the show on the road without questioning how it moved.

The collapse of the system, and with it the doomed efforts of the perestroika period to give managers more independence while retaining

'The hardest thing is to find out what the teachers mean. But their style of teaching is more exciting than at university'

the integrity of a socialist planned economy, pitched Russian management and economic teaching into a void.

While the basics of a market were easy enough to pick up - and had anyway been sanctioned in peasant markets - the larger issues of enterprise management and, beyond that, the macro-economic framework within which the enterprises

fit, were largely unknown.

In 1991, Professor Gul Ofer, an economist and Soviet specialist at Hebrew University, thought he could address the problem by starting a school for graduates which would teach market economics, in English, at advanced level.

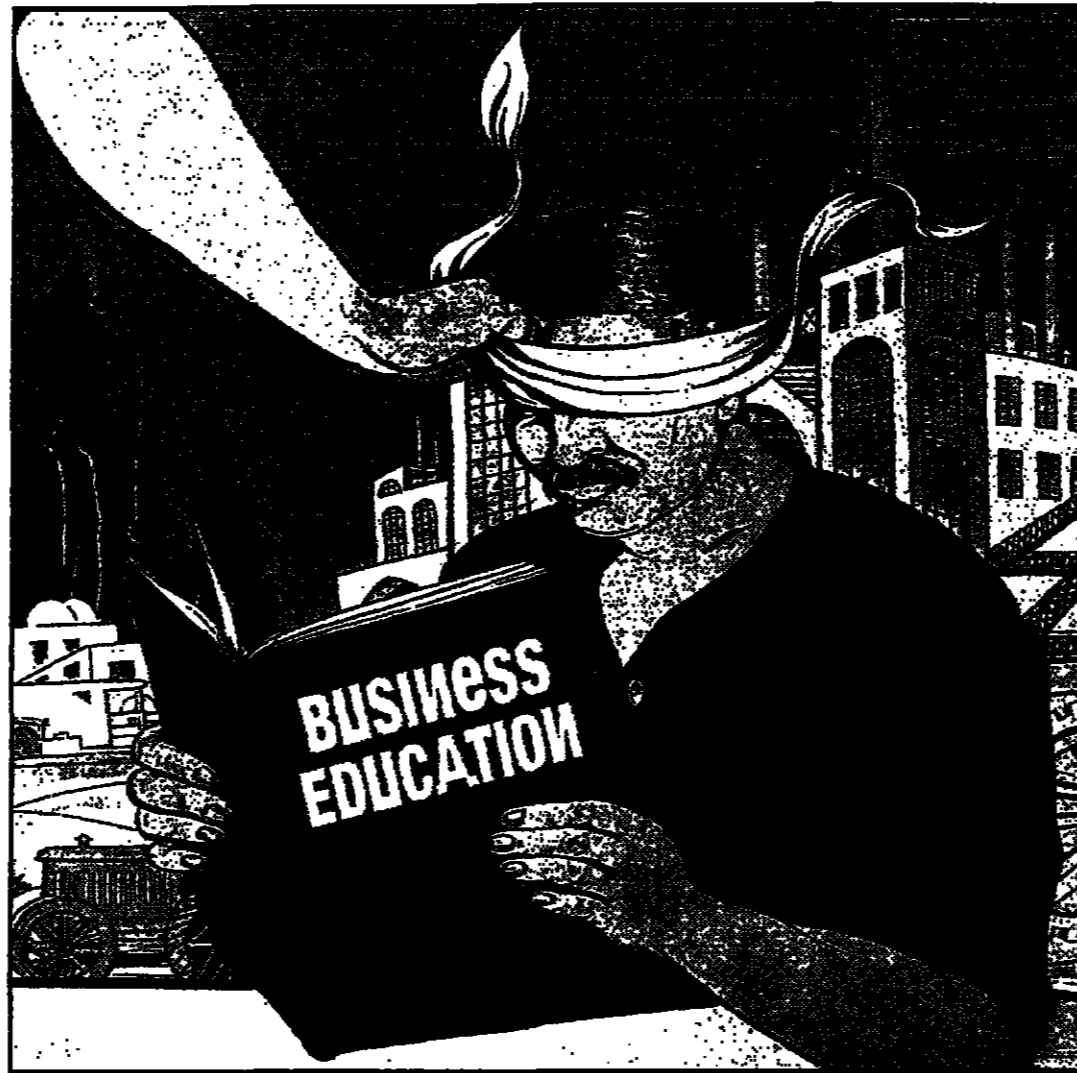
To start anything in Russia is to invite grief. Ofer and his colleagues spent months baggling for office space - finally finding their exiguous premises in the Central Economic-Mathematical Institute, an Academy of Sciences institution built up in the 1960s. It was important in the Gorbachev period as a centre of reformist thinking, particularly associated with Professors Nikolai Petrakov and Stanislav Shatalin. Importantly, they got support from Professor Igor Makarov, head of the institute and dean of the school.

Funding came from the ubiquitous Soros Foundation and (now) from the Eurasia Foundation, a recently created US fund devoted to projects in the former Soviet Union. Together they put up \$750,000 (\$457,000) a year.

This allows the school to pay half a dozen professorial salaries and take in some 30-40 students each year - many from Moscow State University, the country's most prestigious, but others from elsewhere in Russia and a few from former Soviet states.

It is formidably hard. The students in Professor Eden's class - in their early 30s - were following a discussion on inflation. "If you have a government with a fiscal problem," says Eden, speaking to citizens of the country with one of the greatest fiscal problems on earth, "it can print money and sell the money for goods. There's always a temptation to do that; it may not make sense in the long run." The students scribbled in their notebooks.

"I find the speed of it most difficult," says Muscovite Anna Pavlova



after the class. "We must learn subjects in a few weeks if we are to pass the exams and write a master's thesis. It's much faster work than at

the university."

The course clearly means that to bright - like Dvorkovich, who will go on to further study in the west -

flourish and the weaker are left behind. "The hardest thing is to find out what the teachers really mean," says Pavlova. "But their

performances and style of teaching are much more exciting than at university."

This last comment is hardly surprising. These students come out of universities which are being starved of funds, are taught by professors who must take an extra job or jobs to make ends meet and who themselves struggle with new concepts they once viewed - or still view - as reprehensible.

"The professors have only recently learned about the new economics," says Anton Afanasiev. "They mix things up. Most of them are for state regulation of some sort, or maybe for some kind of mixed economy. Very few are for a market economy."

Eden, who normally teaches at the Technion Engineering Institute at Haifa and is an adviser to the Israeli Bank, says that "these students match up or are even better than the ones I teach. They work terribly hard."

Ofer, a big humorous man who shuttles between Moscow and Israel, faces the perennial problems of a Moscow manager. "We need more space but we can't find it, and our rent-free status is now in doubt. Makarov got us in without rent but now his people are putting pressure on him to ask us. After all, the rest of the institute is full of people paying rent for office space - why not us?"

Ofer's connections ensure that the school gets some of the stars of the international economic circuit stopping by. Michael Bruno, now chief economist at the World Bank, gave a talk at which he floated the idea that Russia might find a unique way to the market with privatisation playing more of a role than macro-economic levers.

Professor Jeffrey Sachs of Harvard, former adviser to Russian ministers, has talked twice. Boris Fyodorov, the former finance minister, made time in a ministerial schedule to treat the students to a scathing description of how decisions are avoided in the Russian government.

In the computer room, students eschew the games which are played monotonously in every office with a screen and keyboard and instead pore over spreadsheets and columns of figures. Others sit in the corridors or on the hard seats, reading textbooks and articles. The scruffy, makeshift offices and classrooms have the life about them of young men and women actively grappling with a system of knowledge they are meeting for the first time in such a concentrated way. It is not Harvard Business School - it is something at once poorer and purer.

School and an Academy of Contemporary Economics - both assisted with grants from the European Union.

Alexander Shokhin, then the deputy prime minister for economic affairs, said that Russia must quickly get into the position of offering "the same level of education in economics as other leading countries".

Professor Yevgeny Yasin, a presidential adviser on the economy and something of a doyen of reform, will be dean of the new academy. He says: "The initiative that we academics and professors are starting is not for us and our generation; it is for the students of today and tomorrow."

Jumping on the bandwagon

organised in hotels and even private flats. Indeed, the skills required by today's business people are, as Igor Bunin, director of a think tank specialising in management issues, says: "More to do with finding one's way around a human and bureaucratic jungle than with profit and loss accounting."

The big institutes - such as the Institute of the Economy, the Central Mathematical Institute, the Institute of the Economy of the World Socialist System and the

Institute of Economics and Organisation of Industrial Production - used to dominate the academic scene.

In the last years of communism, smaller think tanks sprang up, where the young men and women who staffed the first wave of reform thrashed out their ideas. At the same time, often with western assistance, business schools were established on the base of an existing university department.

Italian institutions seem to have been first in the field: in 1989, the

Bocconi University Business School of Milan in association with Leningrad University formed the Leningrad Management Institute (now the International Management Institute of St Petersburg); and the Nomisma Institute of Bologna founded Mirbis, the Moscow International Business School.

According to research by the Judge Institute of Management Studies at Cambridge University, most of the world's big business schools now have links, run

courses or have formed joint ventures with Russian counterparts: a group of US colleges has begun a consortium for teaching Russian executives.

The Russian Academy of Sciences, reeling from the cuts in its budget and constitutionally unable to respond rapidly to change, has been so slow to react that, in September, the Economics Ministry together with the committee on higher education said it was by-passing academia to set up or extend a Higher Economic

Glance backwards for clues to success

Recently I changed jobs and offices, and discovered that my predecessor, in his haste, had left his books behind. What a peculiar collection. Older than you could imagine. Most of them were dispatched with severely limited ceremony, especially those with titles like *Feminism and Materialism: Women and Modes of Production*.

But one of them caught my eye in time to save it, although its reprieve was only temporary. It was called *Foresight in Science*, and was about picking winners. It contained a brief section that I found illuminating, for it described Project Hindsight, a study conducted in the mid-1960s by the US Defence Department that assessed the relative contributions of science and technology to the development of 20 types of weapon, including Polaris, the Minuteman ICBM and the C-141 aircraft. Apparently, Project Hindsight consumed more than 50 person-years of effort, and produced some valuable findings.

Another indication of the potential benefits of hindsight is offered by Douglas Rushkoff in his book *Cyberia*, which is sub-titled *Life in the Trenches of Hyperspace* and is better than it sounds. Rushkoff describes an off-the-record chat with a personnel executive at a leading southern Californian defence contractor.

This man admitted that his company's biggest problem was persuading "alternative culture members" (ie, psychedelic-friendly computer programmers) to work for it. He told Rushkoff, between sips of Earl Grey, that the "long-hairs we've hired have the ability to attack computer problems from completely different angles. It would be interesting to take the plans of a stealth bomber and trace back each innovation to the computer. It was drawn on. I bet the tie-dyes would win out over the pocket-protectors every time."

Hindsight is such a useful thing that I am astounded that companies spend so much of their time staring

forwards - instead of glancing backwards - for clues to greater success. I myself, for example, have made numerous resounding suggestions over the years. I made an outstanding suggestion for corporate advancement in 1970, another in 1971, two in 1972, one in 1973, 1974, 1976, 1978, 1981, 1983 and 1983.

Hindsight would seem to be of most use to companies that are heavily marketing-oriented: that rely on the frequent production of good creative ideas. On reflection, though, I don't see why it shouldn't be of equal use to stodgy old banks, or stodgy old anything - enterprises that one does not, automati-

cally associate with the frequent production of good creative ideas.

Hindsight could be the wave of the future.

The headline on a recent advertisement for Scottish Amicable European was big, black and arresting. It said: "Death begins at 40." The ad was about critical illness insurance. I was feeling well at the time, but the headline was so insistent that I read the whole thing. (Nothing unusual there: I am that stranger of creatures, a journalist who likes ads.)

"Things," said the ad, "start to go wrong at about 40. That's when the incidence of cancer, heart attack and stroke begins to climb. . . . One in seven 40-year-olds will suffer a heart attack or cancer before the age of 60. If you're one of them, what will happen when you recover?"

It was a nicely-written ad, and went on to plug the merits of the client's new Flexible Critical Illness Plan, which need not detain us. However, it reminded me of the convulsions in the insurance market likely to occur when genetic testing gets into its stride. For example, those two great killers, heart disease and cancer, are strongly influenced by genes. Before long, many of us may be able to learn the probable date of our death. But should insurance companies have the right to demand the results of genetic tests?

Some weeks ago I had lunch with Steve Jones, who is professor of genetics at the Galton Laboratory of University College, London. In his

view, genetics may kill off the life insurance business, because it erodes our ignorance of future disease.

"No one," he has written, "will pay for health cover when they are pretty certain that they will live to a ripe old age, or when the [insurance] company knows that an expensive illness is programmed into the genes and charges accordingly. Insurance already suffers from the fact that people at high risk are more likely to buy a policy. There may be a war of cost escalation which ends with only risk-prone people paying for health insurance."

All this, says Jones, is an argument for a National Health Service, which diffuses individual risk among a whole population.

Personally, I hate insurance. I resent being asked to pay inflated premiums to cover claims made by people who are unlucky, stupid, more negligent, more plicated or less truthful than I am. There's an awful lot of you around.

MICHAEL THOMPSON-NOEL



PIONEERS AND PROPHETS

Alfred P Sloan

Alfred P Sloan's (1875-1966) sole contribution to management literature is *My Years at General Motors*. Published in 1963, it is a one-paced, intricate account of how Sloan managed GM. Sloan was not an up-tempo evangelist with a witty catch-phrase and a store of witty anecdotes, and yet the book is among the most important in management and Sloan one of the most influential managers of the century.

"His book is one thing, what he did at GM is quite another," says London Business School's Sumant Ghoshal. "Sloan created a new organisational form - the multi-divisional form - which became a doctrine of management. Today, it is not ascribed to him, but Sloan was his instigator."

Sloan became president of GM in 1923, chairman in 1946 and honorary chairman from 1956 until his death. When he took over, GM was struggling to hold its own as Ford, with its Model T, swept all aside. He set about revitalising and reorganising GM along "federated" lines, the very antithesis of the way Ford organised itself. He replaced GM's messy, bureaucratic, centralised system with one based on divisions, each with its own clearly delineated responsibilities. More than 30 divisions, further divided into groups, emerged.

Instead of fighting for dominance, separate functions were treated as equals. In the marketplace, GM's products - including Chevrolet and Cadillac - competed as separate divisions.

Much of the current debate about being both local and global can be traced back to Sloan's delicate balancing act between the twin forces of decentralisation and centralisation. Sloan's triumph was in achieving a balance over so many years.

The decentralised structure proved the making of GM. By the late 1970s its US market share was more than 45 per cent, compared with 12 per cent when Sloan took over in the 1920s. The federal structure meant that instead of concerning themselves with the nitty-gritty of production, executives could turn their energies to ensuring that divisions met their performance targets and to providing overall direction. GM's fortunes revived and Sloan began to meet his aim of providing a car for "every purse and every purpose".

The new GM became venerated as a model of management. But troubles emerged with the multi-divisional system. It was built around a vast web of committees and groups which became bogged down in their own power struggles and bureaucracy. Stringent targets and narrow measures of success stifled initiative. Also, by the 1960s the delicate balance was lost - finance emerged as the dominant function - and GM became paralysed by what had once made it great.

Even so, Sloan's legacy lives on - the multi-divisional organisation remains dominant; in the 1980s it was estimated that 85 per cent of large corporations had adopted the multi-divisional structure. Only now, says Ghoshal, is a new, more entrepreneurial, organisational model emerging to replace the world according to Sloan.

Stuart Cramer

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مكتبة الامم المتحدة

BUSINESS TRAVEL

Zaventem ramp
Brussels airport opens its new terminal building on December 11, completing a \$674m revamp of an airport long criticised as outdated. The new terminal will raise the airport's capacity to 15m passengers annually, and "will be one of the most beautiful and modern airport buildings", an official says.

For years, Zaventem airport has been the butt of jokes, with long queues irritating passengers at the 40-year-old terminal building. Prime Minister Jean-Luc Dehaene described Zaventem last year as "a rather

provincial airport" in serious need of renovation. Passenger numbers have doubled to more than 10m a year, and Sabena, the national airline, wants Zaventem to be a Euro-hub for business travel.

The first stage of the modernisation and extension of the airport - a section of the new departure hall, a portion of the arrivals area and a new baggage-handling system - was opened last June. The project, initially budgeted at \$257m, was started at the end of 1989 and was due to be unveiled at the end of late 1992. It is supported by the state and private companies.

Mean streets

Indonesia is sticking to its promise to sweep the normally teeming streets of Jakarta clean of transvestites, prostitutes, street vendors and beggars in honour of the Apec summit.

Transvestites and prostitutes have been chased off the streets while vendors' food carts have been barred from the city centre. On-the-spot push-ups are being revived as punishment for jaywalking, though there have been no reports of foreign visitors being ordered to do push-ups. An American oil executive recently panicked when a transvestite dived into his car. Only after much shouting and 50,000 rupiah (\$22) later could the oilman drive off unaccompanied.

Safety row

USAir has allowed jets to leave gates without enough fuel at least nine times and once used a jet for 13 days despite a dangerous crack on its wing flap, the New York Times reported at the weekend. Despite assurances from USAir and federal officials, a two-month review of the airline showed numerous safety and training problems, it said.

In one incident, the pilots of a Washington-to-Boston flight did not check to see if the aircraft had enough

fuel. When forced to land at La Guardia airport, New York, they fled and radioed the control tower that they had to land because of engine trouble. Afterwards, the captain admitted there had been no engine trouble.

On September 8 a USAir Boeing 737 crashed near Pittsburgh International airport, killing all 132 aboard. Last July a USAir jet crashed in Charlotte, North Carolina, in a thunderstorm, killing 37 of 57 people aboard. USAir executives told the newspaper the accidents were not connected and there was no reason to draw negative conclusions about safety.

Flight of peace

A new Irish air route opens on December 2 in the first big cross-border push for travel business since the IRA ceasefire. Flights between Belfast and Kerry will be a "concrete example of the peace initiative at work", says Go Ireland, the company promoting the service. It said: "We would hope this is the first of many such flights, opening new markets north and south of the border."

KLM Royal Dutch Airlines' business-class price reductions on fares to places outside Europe, referred to last week, are available only in the Dutch market, KLM said. Journeys starting in the UK or elsewhere do not qualify.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	15	13	13	14	15
Hong Kong	28	29	29	29	29
London	15	13	12	8	8
Frankfurt	12	13	9	9	8
New York	17	16	11	13	16
L. Angeles	22	22	20	18	23
Sydney	12	14	14	16	9
Paris	14	14	11	9	7
Zurich	12	13	7	6	3

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The code few people can crack

Emily Juste on an airline practice that is worrying some passengers



It was not so long ago that the phrase "airline code-share" crept into use. A consumer-oriented magazine uncovered the practice and suggested it was misleading; airlines went on the defensive; industry trade bodies applied pressure; and the victims - air travellers - grappled with the new concept.

Airline code-sharing is a simple process. It is when two airlines use a single flight designator - or flight number - to market a through service. It can mean that while you are booked on one airline you can unexpectedly end up making part of your journey on another airline.

Travel agents have difficulty discovering whether a flight is code-shared or not. Not all airline computer reservation systems highlight the practice early enough in their listings. As a result, booking agents, always under pressure to get the job done, often do not warn passengers of what is in store for them.

The oft-used example was the code-sharing arrangement between Emirates and Cyprus Airways. If you booked Emirates' flight EK 407 from Dubai to Larnaca you did not fly with Emirates. Rather, you flew Cyprus Airways, whose European-style business class does not match the long-haul comforts offered by Emirates' business class. However, this particular arrangement was ended last week.

There is less controversy among industry pressure groups if the two airlines that are code-sharing offer travellers comparable standards. But if they clearly offer different quality and safety

standards, passengers are being deceived.

If Joe Public books with Airline A in a modern aircraft type, but flies on part of the route with inferior-standard Airline B on an older, less well-cared-for aircraft, there are obvious grounds for complaint.

Code-sharing is a worrying trend because its use has spread throughout the airline industry and to all big carriers. Even British Airways code-shares with its US partner, USAir. If you book a BA transatlantic ticket and an onward domestic US leg, you will cross the Atlantic on BA but the US leg will be on USAir.

The advantage to airlines is being able to expand route networks with minimal outlay. Instead of competing against one another on the same route,

two airlines operate the route jointly.

It's not all negative for travellers. There are some advantages. Your baggage is booked through to your final destination; you need only one ticket;

If Joe Public books with Airline A in a modern aircraft, but flies part of the route with inferior Airline B on an older, less well-cared-for aircraft, there are grounds for complaint

and, because of the linking of frequent-flyer programmes, you may want to choose a code-share flight to maximise rewards.

As airlines increasingly link with partner airlines to increase their muscle

in the marketplace, the code-share trend is set to continue.

Business Traveller magazine exposed the practice last March. The Air Transport Users Council (ATUC) was on

says Tony Hookley of the ATUC. "Airlines are making sure it doesn't backfire on them and that their passengers' goodwill isn't lost. I can't believe that any airline would willingly deceive its customers. You can only deceive them once, and they certainly don't want disgruntled passengers."

British Airways now prints on its tickets the name of the airline operating its services, while KLM and Lufthansa also tell their passengers that they are travelling on a code-share flight. United has always placed an itinerary card on the front of all its tickets listing the carriers operating its flights.

American Airlines was the first carrier to come out publicly against code-sharing, calling it "basically deceptive". But American continues

to code-share as it feels obliged to match competitors' tactics.

At a conference last month, Hans Mirka, a senior American Airlines vice-president, listed several reasons for opposing code-sharing. Among them: it deceives customers, who are promised one thing and given another; it is "profoundly anti-competitive", since it creates combinations between former competitors which diminish meaningful price and product competition; and it will "certainly discourage independent carriers".

The US Department of Transportation is proposing a piece of legislation to clear up the lack of disclosure. Current rules stipulate that a travel agent selling a ticket should tell the customer about code-sharing. But a survey revealed that only 30 per cent of passengers were being informed that they were booked on a code-share flight. In Europe, the EU is considering the issue.

The onus is now on travel agents to inform passengers and to take more time to establish whether flights are code-shared or not. Computer reservation systems such as Sabre, Galileo and Apollo do have the correct information, but it often surfaces on screen only after many prompts.

The GBTAA set up a lobbying group some weeks ago. What it wants is complete transparency on code-sharing. "The industry is at fault," says GBTAA chairman David Reynolds. "You can't pin it [solely] on the computer reservation systems or the airlines. They're both at fault."

An hour to spare: Glasgow

You are in Glasgow, with an hour between meetings. What to do?

Dr William Hunter has an assured place in medical history as a famous obstetrician and the first great teacher of anatomy in Britain. Even Adam Smith, Edmund Burke and Edward Gibbon went to his lectures. His wide-ranging collections of specimens, coins and medals, and his fine library of books and manuscripts, have enriched the University of Glasgow, while his paintings form the nucleus of the Hunterian Art Gallery, one of the choicest of all university collections.

Thanks are due to the doctor for the three magnificent paintings by the incomparable subtle Jean-Simon Chardin: *A Lady Taking Tea*, *The Cellar Boy* and *The Scullery Maid*. But the real strength of the Hunterian focuses on the turn of this century, and the influential Glasgow architect and

designer Charles Rennie Mackintosh and the American-born artist James McNeill Whistler.

The windows and front door from the long-demolished Mackintosh House in Glasgow were incorporated into the facade of the new museum in 1980, and its four principal interiors carefully reconstructed as Mackintosh originally conceived them. Bequests of furniture and other applied arts, drawings and designs have made the museum the pre-eminent Mackintosh archive.

The Whistler holding - the contents of his studio at his death - comprises some 80 oils, including 11 full-length portraits, 120 pastels and several hundred prints and drawings. Its only rival is the Freer Gallery in Washington.

Hunterian Art Gallery, 82 Hillhead Street, Glasgow

Susan Moore

Microchips on the Paris metro

The Paris metro commuter rail network is testing an advanced ticketing system that uses a plastic card, embedded with a microchip, battery and tiny antenna, that need never leave your pocket or purse.

The card - about the size of a credit card, though a little thicker - is being tested between the Chatelet stop in central Paris and the suburb of Les Lilas, officials of the Paris Transport Authority said. It has been designed for

use on 2,900km of bus routes and the metro's rail 201km.

The system is being developed by Roland Moreno, the Paris-based inventor of France's electronic banking and public telephone systems, which rely on microchip-equipped cards.

The current system, used by some 4.3m travellers daily, relies on paper tickets with magnetic strips. But that system is near its end and is plagued by fraud.

'No one is better than the British at sorting out chaos'

Perhaps, suggests Michael Thompson-Noel, it would be better if trains through Sir Alastair Morton's tunnel were to run late - just at first

This ought to be a good week for Britain. But ought is a big word.

Today, tickets go on sale for Britain's first national lottery since 1826: a world-class tombola (the first draw is on Saturday) which is likely to gush geysers of cash for various good causes and to spread happiness throughout the land.

And today, by coincidence, the first fare-paying passengers are due to step aboard high-speed Eurostar trains for the start of services linking Britain to continental Europe via the Channel Tunnel.

Two grand projects. Fun and cheer for all. A lottery which is expected to become one of the world's biggest, and a macro-engineering coup that will anchor Britain a little more securely to its European neighbours at a time when Europe's centre of gravity is drifting eastward.

Yet in Britain there is only tepid celebration. Instead, a fit of mockery is waiting to burst forth if either of these great projects flunks its debut.

In theory, accidents or cock-ups are unlikely to afflict the lottery. Lotteries are easy to establish, simple to operate. You turn on the tap, out comes the money. But the Channel Tunnel represents state-of-the-art macro-construction at the tail-end of the 20th century - complex, sophisticated and a devourer, to date, of mountains of investors' money.

In Britain, the approach to today's start of commercial Eurostar services has been signalled by an escalation of chortling and whingeing - scare stories about safety, further criticisms of the financial predicament of Eurotunnel, the Anglo-French private-sector company which designed, financed, built and will operate the tunnel; and gleeful accounts of "embarrassing" breakdowns and faults.

However, most of this will have been water off a duck's back to Sir Alastair Morton, 56, co-chairman of Eurotunnel and the man who has carried the



weight of Eurotunnel controversies since 1987.

He was born in Johannesburg, educated in South Africa and at Oxford University (law), and then joined De Beers, the diamond monopoly. After that his career included the World Bank, the British National Oil Corporation and financial group Guinness Peat.

Morton has always been renowned for his toughness and "frightening belligerence" - qualities no doubt essential when dealing with governments, banks, contractors and rail companies while breathing life into a project like the tunnel, but ones that do not reveal themselves across the lunch-table. He exudes forcefulness and confidence - not a man to interrupt - though he can be curiously softly-spoken, so that you have to lean forward.

I met him at Luigi's, an Italian restaurant he likes because he can walk there from his central London office. He was late. He apologised. I said it

was not a problem; his secretary had rung the restaurant. He had been delayed, he explained, by the media. There had been a leak about something in Paris which was causing movement in the share price. "I had to calm things down."

I asked him whether he had had his fill of journalists. He smiled through bared teeth. "Yes," he said, "you could say I was pretty fed up with the press. Not that I take it personally. It's the tunnel, of course. It's big and it's assertive and it satisfies the need in Britain - in fact it's an English thing - to mock, a need to express contrariness."

"It has always been that way. England's national motto is: 'There'll be trouble if you do that.' The exception was North Sea oil, but that was because it involved American oilmen. The ability of Eurotunnel to make money has always been questioned, but only by the City of London."

"I have got used to the fact that adverse or negative news affecting Eurotunnel is seized upon, whereas what might prove to be good news - such as improved traffic forecasts - gets virtually no attention."

I asked Morton what was special about the Channel Tunnel that attracted this treatment. "Well," he said, "first, it's a tunnel - not a bridge, which is glamorous, romantic and liberating. Second, it's a fixed link between England and the continent. Third, there's its size. The feeling is that it's a big project that will come to no good. It has a few fans in Britain: businessmen, for example, who can see five years ahead, and engineers. But the tunnel has to contend with a great deal of bias."

"In France it's different. The French like their big projects, their rockets, the Airbus, their motorways, their *grande vitesse* trains and nuclear power. The difference is this: in France, the man in the street believes

that as a result of big projects his grandchildren will lead a better life."

Did he regret taking on the tunnel? "No, I knew it would be large, complicated and organisational. I saw it as a major economic development that was very necessary. The great thing I didn't bargain for was a voyage through the English psyche."

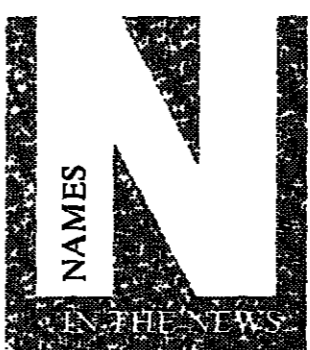
I had read, I said, that history's grandest macro-engineering projects, such as the pyramids, had always depended on absolute political support at the very top. Was that true of the tunnel? Would history see Margaret Thatcher and François Mitterrand as its heroes?

"For Mitterrand," said Morton, "the tunnel was a means to an end: the resurrection of derelict northern France. Conversely, Mrs Thatcher said at the outset that the tunnel would be done by private enterprise or not at all - and after that said nothing."

The Eurotunnel boss seems surprised - even now - at the frigidity of Britain's attitude towards the rest of Europe. "There is no sense I can detect of people in Britain saying that because they have joined Europe economically they should be doing things like the tunnel to integrate themselves more fully. Britain backs into the future grumbling and grudgingly. On the other hand, the genius of Britain is the way it copes with adverse circumstances."

The British are reactive, not creative, whereas the French plan. A French engineer will tell you that he cannot start work without a plan. But plans can fail. There is no one better than the British at sorting out the resultant chaos."

On that basis, perhaps the best thing for the Channel Tunnel and for the national lottery would be a few spectacular cock-ups, preferably this week. There would be dancing in the streets - and then a brilliant British rescue. For anyone knows, that may even be the plan. (See Leader page)



Jardines recruits locally in Manila

The Philippine branch of Jardine Matheson has a reputation as a training ground for future Taipans of the 133-year-old Hong Kong trading giant, writes Jose Galang, Alastair Morrison, Jardine's current managing director, once worked there, as did his predecessor, Nigel Rich, who now runs Trafalgar House. Percy Weatherall, the boss of Hongkong Land, and Simon Michel, another senior Jardine figure, also learnt their trade in Jardine's Manila office on Buendia Avenue.

Hence the surprise at the appointment of Aloysius Borja Colayco, 44, as head of Jardine's locally-quoted subsidiary. Not only is he the first Filipino to lead the group but he has been brought in from outside and given the job of chairman and chief executive. Although a few other foreign multinationals such as Shell and Caltex have had Filipino chief executives, it is a big departure for Jardines and suggests that it is intent on revitalising one of the sleeper parts of its far-flung trading empire.

Colayco is not the most obvious candidate to run a business whose activities range from traditional sugar milling to merchant banking, insurance broking, construction materials, and hotel operations. Most of his career has been spent working in the international insurance industry. He was president of New York-based AIG Investment Corporation, which manages AIG's investment portfolios in Europe, Asia, Latin America and other regions outside north America.

However, Colayco is not a complete stranger. In 1980 he joined Jardine Davies as assistant treasurer and was transferred a year later to the group's head office in Hong Kong before moving to chief

investment officer of Philippine American Life Insurance, part of AIG, the US insurance giant. Jardine's decision to poach him back suggests that - in the unlikely event of Jardine choosing an Asian Taipan - Colayco would have to feature as a contender.

Spielvogel's third career

Predictability is not Carl Spielvogel's strong suit, writes Richard Tomkins. Three weeks ago he astonished Madison Avenue by quitting Bates Worldwide, the US advertising agency he co-founded. Now he has raised eyebrows still further with the announcement that, at the age of 65, he is starting a new career as a car dealer.

With effect from last week, Spielvogel has become chairman and chief executive of United Auto Group, a company set up in 1992 to buy and run auto dealerships around the US. According to one trade magazine, it is almost the eighth largest auto dealership group in the US.

The latest move launches Spielvogel into his third career. His first, spanning 10 years, was as a journalist with The New York Times, where he became the paper's first advertising columnist.

In 1960, he left the paper for the advertising industry, later setting up Backer & Spielvogel with Bill Backer in 1979. The company was eventually bought by Saatchi & Saatchi and merged with Ted Bates Worldwide, at which point Spielvogel's name dropped from the title.

When Spielvogel (below) resigned as chairman of Bates Worldwide last month, many thought it was in protest at interference in the company's business by the parent company's British executives. But it now emerges that he was serious when he spoke of pursuing another career.

Spielvogel says the switch is

not as odd as it might look. "The automobile business has been short of marketing," he says. "Recently John Smale, the former head of Procter & Gamble, became chairman of General Motors, and you wouldn't exactly call him an automobile man; yet he is bringing contemporary marketing techniques to the automobile business. I intend to do the same."

Two outsiders for Bell Canada

Bell Canada is a rare breed among the regulated monopoly utilities which have been plunged into free-for-all competition, writes Bernard Simon. Canada's biggest telephone company has met its rivals head on, to the point where this once-bureaucratic behemoth is quickly gaining a reputation as an agile, forward-looking animal.

The transformation is reflected in a recent management shake-up. Bell, which is wholly-owned by BCE, the Montreal-based telecoms conglomerate, has reached outside its own ranks to fill two top jobs. Ian McElroy, 44, takes over as chief executive of a new "competitive services" division, which will include sales to large customers and long-distance services, which were deregulated in 1992.

For the past year, McElroy has been president of BCE Mobile Communications, which includes BCE's cellular telephone interests. Most of his career before that was spent with IBM's Canadian subsidiary, where he rose to vice-president for system operations.

John MacDonald, 41, previously chief executive of NBTEL, New Brunswick's telephone company, was named executive vice-president for business development and chief technology officer, with responsibility for such areas as multimedia and advanced intelligent network services.

MacDonald, whose business card includes his electronic mail and Internet sign-ons, has helped turn NBTEL into one of North America's most innovative telephone companies. Announcing the latest appointments, John McLennan, Bell's chief executive, reiterated that "anyone who wants to take our customers away from us is in for the fight of their lives. We're not going to concede anything to anyone."



MEDIA FUTURES

It's advertising, Jim – but not as we know it

How juicy will new media opportunities be for ad agencies? Michael Thompson-Noel finds out

What will advertising look like in the digital, interactive, online, multimedia superhighway? Will it differ greatly from the steam-age advertising in present-day media: newspapers, magazines, television, radio, cinema and posters? How juicy will it be?

Try this: We are watching the Olympic Games of 2004. The picture fades. Up comes a message. View our commercial and we'll give you a Kentucky Fried Chicken Family Feast at half price every Friday night for a month. It says. (Advertisers have to be polite in 2004 because there is a gadget on our PC-TV that zaps into oblivion any rude or junk messages we do not wish to see.)

We are hungry. So we push the OK button on our PC-TV and view the commercial. Somewhere far away, KFC's computer smoothes into action. On to our screen comes a picture of Arty the Aroma, holding a plate of chicken and fries. Next, we see footage of Arty waiting along our street. Up to our very house. His finger on our doorknob. A most seductive fellow. "Hi, Mike," he says. (The computer is all-knowing. "You appreciate better than anyone in your street that KFC's the greatest taste there is. What can I offer you tonight?")

In this scenario we have invited an advertiser to talk to us. He is enjoying a one-to-one relationship with us, something on which advertisers in the superfuture will set tremendous store. For companies of all kinds, it could mean life or death.

This trip to the Olympics of 2004 was conjured up recently by Patrick Collister, executive creative director at the Ogilvy

& Mather advertising agency in London, for an O&M conference about "new media." It illustrates how senior creative people in ad agencies are anticipating the superfuture. According to Collister, "Brand values are going to be increasingly important as we journey down the superhighway. And in supporting those brands, creativity will be increasingly at a premium."

Until now, he says, advertisers and their audiences have had a straightforward relationship. If you watch my commercials, says an advertiser, I will pay for your TV programmes. But this relationship is about to change. Advertisers are establishing what they call a dialogue with consumers. Instead of soliciting responses, they may well find themselves responding to solicitations.

This is called collaborative advertising. And various changes may happen. Advertisers who irritate their customers with witless and aggressive messages may find themselves expunged – booted out of the home. Conversely, advertising that is friendly and engaging and which espouses relevant brand values will be worth its weight in diamonds.

Collister's imaginative journey to the 2004 Olympics is not far-fetched. Yet the most interesting feature of the way the advertising business is preparing for the superfuture is not the boldness of its conference-going seers, but its caution and its cynicism. It is not lathering itself to bits but sitting relatively still and spending little money. It is waiting and it is watching, like a fat spider in a softly shimmering web.

There are reasons for this watchfulness. First, people in advertising agencies are specialists in communications. They know a lot about media evolution.

Second, they know that the superfuture will not be technology-led but consumer-led. So they are not, primarily, watching the technology. They are watching the consumer, monitoring his likes and dislikes. And consumers, at least in Britain, are at present "massively luke-warm" on new media in the words of Rhona Tridgell, client service director at O&M. Many adults are technophobes. They don't want technologies to converge. They want them held apart. "Consumers will only take a real interest in new media," says Tridgell, "when it is useful, affordable, user-friendly and time-saving."

Third, they are experts in hype. They produce it and they can spot it. This means they can attempt to identify which technology and media companies are trying to position themselves in the marketplace with an over-use of *chutzpah*.

Fourth, advertising in the steam-age media is booming. In Britain, advertising expenditure this year is expected to top £100bn – in real terms, an 8.4 per cent gain on 1993, with further sharp growth expected next year. All main media sectors are sharing the boom. With so much steam-age revenue about, agencies are battling to boost their share. Their eagerness towards the superfuture is easily understandable.

But things are starting to stir. At Saatchi & Saatchi, Britain's biggest agency, Moray MacLennan, joint managing director, has set up a group to study the media future.

"This task force will comprise three or four top people from each of our 25 European offices," says MacLennan. "Typically they will be the media director, a technology

expert, a creative brain and a strategic planner. Their job will be to educate, investigate – and recommend action. We want them to start making things happen for our clients."

"In our view the superhighway, in all its predicted glory, is quite a long way away in terms of how it will affect our clients. But as new media develop, we want to be on top of them. Will they be different in kind to existing media, or will they require an adaptation of existing advertising techniques? The latter is the view we have settled on."

"What will consumers do with the new media? We want to understand what consumers want and how much they'll pay. Do they want interactivity more than straight choice? We believe there will not be a replacement for mass-market TV. It's a bit like saying that photography was going to be the death of painting, or TV the death of cinema."

"Yet agencies will have to adapt from being a cottage industry to a high-tech one. So far, technology has not been central to agencies' business. In future they'll have to be very careful not to be left behind."

What will become much harder, says MacLennan, is the job of media planning. Media specialists, who plan advertising campaigns and book the space and time, will have to become highly creative planners in the fragmented superfuture, rather than just schedulers.

This is echoed, naturally, by Mark Craze, chief executive at TMD Carat, Britain's second largest media-buying firm. This year he expects to buy £300m worth of advertising space and time on behalf of clients that include Abbey National, Cadbury, Nissan and American Express.

He says that companies like his have already coped with "massive change and growth" in the steam-age media. Since 1990, UK advertising outlets have grown in all directions. In addition to terrestrial TV, there are now 25 English-speaking cable/satellite TV channels. In the same period the number of local radio stations (there are three national ones) has grown from 27 to 149; newspapers, from 1,583 to 1,957; consumer magazines, 1,527 to 2,423; business and professional publications, 2,629 to 5,377; and cinema screens, 1,576 to 1,896.

Recently, TMD Carat hired Blackett Ditchburn, formerly corporate communications manager at Prudential Corporation, to study new-media opportunities. "As media have become more interesting and complex," says Craze, "so clients have shown increasing interest in the media side. And there has been greater fusion of marketing skills. Blackett's appointment is meant to ensure that we are forward-looking. At present, consumers are fairly passive. That will change, though we are probably talking five years-plus. We need to be ahead of our clients, to make sure we have the answers to their questions when they pose them. We have to be prepared."

A man who is really ahead is Daniel Bobroff, a 29-year-old former big-agency employee who in mid-1990 hooked all his assets, lived on a shoestring and ran up an unofficial £2,000 bank overdraft so as to found Microtime Media. Bobroff says his company pioneered interactive advertising in Britain, and that it is at the forefront of new-media brand promotion. He says he has produced more than 70 pieces of interactive advertising for clients such as

Coca-Cola, Pepsi-Co, adidas and Midland Bank, and that this year he will handle £1m worth of clients' expenditure – not bad, but tiny by big-agency standards.

Much of Bobroff's work has involved placing commercial messages within the running time of educational and leisure software, especially video-games, a clutch of which have reached No 1 in the UK computer games charts. "Finding the right software titles is essential," he says. "They have to be right for the brand and for the marketing brief."

Bobroff, a smooth talker, was given his first computer at the age of nine or 10. It is possible that he is doing nothing that a hot-shot steam-age agency couldn't do by Monday week if it threw a few thousand pounds at it and diverted some key staff from the daily grind.

On the other hand, Bobroff may have slipped the pack and launched himself into the superfuture. He can count on one thing: people in steam-age advertising agencies are watching his every twitch.

Myths exposed by AT&T trial

By Alice Rawsthorn

When AT&T sent a videotape to the streets of Manhattan to ask people what they thought of the information superhighway, one asked: "What's that?" Another said: "Is it a toll road?" A third thought it was like "one of those telephone games where a message is passed on and on until it all gets screwed up." AT&T, one of the world's largest telecommunications companies, is anxious to discover how the public will react to the new services it will be able to deliver because of the convergence of its telecom business with the information technology and entertainment industries. One of its top priorities is the development of an interactive television service. AT&T is now in the throes of a long-term research project to find out what the public wants from interactive TV. The results so far have disproved almost all its original assumptions.

"Our initial research told us that people would use interactive TV as a source of information and that it was something they would use on their own, like a personal computer rather than a TV," Vincent Grosso, director of interactive services at AT&T, told a conference organised last week by the Netherlands Design Institute in Amsterdam.

"We were looking for the 'killer application' – the one thing which was so powerful that it would make people really want to have interactive TV in their homes."

Yet when AT&T began its research two years ago by running a nine-month trial in the homes of 50 employees in the Chicago area, it discovered that the most popular channels delivered entertainment, not information. The trial also revealed that people preferred to use interactive TV as a communal activity – with the family playing an interactive game, for instance – just as they do with traditional TV.

"We realised that we shouldn't have been looking for a killer application but for killer attributes," said Grosso. "The service worked best when all the attributes – information, entertainment, communication and transactions – were integrated."

And the service had to be easy to use. At the end, AT&T found that the instruction books were still in their shrink-wrapped covers in 40 per cent of homes. In half those homes, people said their children had taught them how to use the service. The rest had muddled through.

AT&T is now finalising plans for two more trials which will start next year.

These trials will be bigger and more sophisticated than the Chicago pilot. However, Grosso is convinced that AT&T learnt some valuable pointers from that project.

"One of the most important lessons was to check everything the participants told us. We'd listen to people talking about how they had used the service for news and information. But their records showed that they'd spent most of their time playing games."

Europe 'heads for crisis'

By Alan Carne

Europe's telecommunications companies are heading for a productivity crisis which will hamper their efforts to compete effectively in tomorrow's information society, according to a leading US-based technology expert.

Eric Benhamou, who chairs the American Electronics Association's national information infrastructure task-force which is assessing the implications of multimedia and the information superhighway, said that Europe lagged behind not only the US but even developing economies like China in its approach to the information society.

He warned that Europe's telecommunications costs were too high and the productivity of its workers too low – leading to a vicious cycle which was hurting the competitiveness of European companies and reducing their

ability to grow and create jobs.

Benhamou, chief executive of the US networking company 3Com, was speaking at an AEA meeting in Brussels last week. Complaining that European telecoms costs are still two to three times higher than in the US, he warned that Europe must cut prices to stimulate market growth and create a virtuous cycle where industrial productivity would lead to new jobs and industries. He said Europe had to match or undercut US prices immediately and in one drastic move, or risk "death by 1,000 cuts".

He said regulations requiring manufacturers of telecommunications equipment to gain approval for their products in each European country were "regulatory sabotage", arguing that one country should have the authority to approve telecommunications equipment through the EU.

By comparison, China had a

pragmatic approach to building its information infrastructure. It was developing four major "golden projects" – networks covering public economic information, national foreign trade, national finance and the value-added tax management system. "These projects will interconnect 30-40 provincial capitals and about 500 cities to create an information superstructure for China's government and industry. Their efforts in education alone will add 20m nodes to the Internet to enable work in research and education."

In the US, surveys indicated that support for building a national information infrastructure was based on a belief that it would benefit business efficiency first, followed by business competitiveness. Entertainment came well down the list despite the media concentration on video-on-demand and computer games.

By comparison, China had a

ARCHITECTURE

The picture at Bankside

Colin Amery looks at short-list contenders for the Tate conversion

There is a week to go before the announcement of the short list of architects from which will be chosen the designer for the conversion of Bankside power station, near London's Southwark Bridge, into the Tate Gallery of Modern Art. This is an important international competition – one that will have a profound effect on the style of public museums and galleries in the future.

So far the competition has been an extraordinary affair – a mixture of good intentions and inevitable confusion. It was a brave idea to open the competition to architects from around the world. Contemporary architecture is an international activity, as is the building of new museums, but it is unusual for competitions to be so open and all-embracing.

When a selection committee opens a competition to all-comers it is usually in the hope that they will be able to spot a new discovery, an untold talent, a genius who will change the contours of the architectural map. This is exactly how the original architect of Bank-

side power station, Sir Giles Gilbert Scott, was discovered. He achieved sudden and early fame by winning the competition for Liverpool's Anglican cathedral in 1904, when he was only 24. He was to go on to create Battersea power station in 1932, which became the model for so many brick giants all over England. By the time he was consultant architect for Bankside he was close to death, and died in 1960 – just before Bankside opened.

The symmetry of Bankside is striking, with its 325ft-high central chimney (the station was designed to burn oil, not coke) and its immaculate brickwork. Inside, the great spaces are a challenge to any architect, and they are clearly going to be expensive to convert and even more expensive to maintain.

The competition attracted 148 architects. Applicants for the first stage were examined only on the evidence of a few slides and a brief written submission. Because an open competition is so random, many of these early entrants had little or no museum experience. It has to be remembered that

many of the best architects in the world are reluctant to enter such wild competitions.

The finest architect in Britain, Sir Norman Foster, for example, is not even being considered for Bankside. Many architects – I suspect Sir Norman is among them – will feel as I do that it is sad that the first major building in Britain devoted to the art of the 20th and 21st centuries should be a conversion of a large, but not that distinguished, redundant industrial building.

The 13 architects on the long short list have presented a mixture of predictable and imaginative schemes. Michael Hopkins' ideas look the most straight-forward, while the work of the firm of Future Systems has been marvellously presented and has immense character.

Nicholas Grimshaw, the architect of the nearby Channel Tunnel terminal at Waterloo, has brought the railway aesthetic into the world of the art gallery.


The two Japanese firms both deserve to be on the list. Arata Isozaki and Associates have plenty of museum experience,

while Tadao Ando, the current favourite to win, has produced some strangely moving and elemental buildings in Japan that are works of art. His Japanese pavilion for the Seville Expo '92 was a model of respect for the essence of traditional building.

The assessors, chaired by Sir Simon Hornby, are a diverse group. They include the broadcaster Joan Bakewell as well as two architects who are poles apart in their stylistic sympathies: Sir Philip Powell, a good if almost old-fashioned modernist from the firm of Powell and Moya, and Hans Hollein from Vienna, who is a glitzy post-modernist and designer of the museum at Monchschiadach in Germany.

Whatever the outcome of this competition, it is important to remember that it is a major architectural and cultural event. The removal of the "modern art" from the other great collections at the Tate, further along the Thames, is controversial in itself. How successfully this is done depends greatly on the right choice of architect for the new galleries.

HOW TO SPEND Weekend FT



THE WAY YOU LOOK TONIGHT
A return to elegance

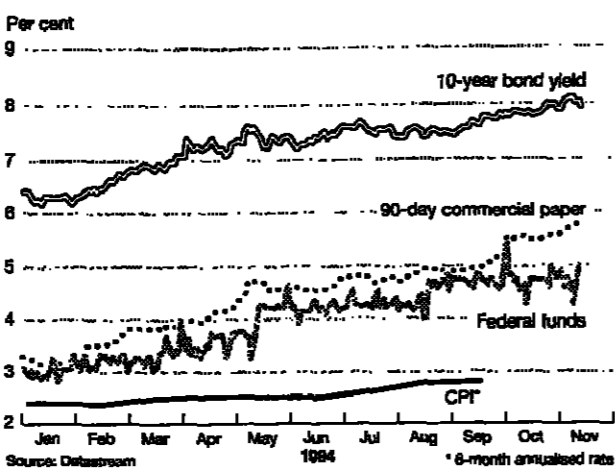
Your money. A user's guide



Samuel Brittan

The feel-bad US factor

US interest rates and inflation



is under way - in the US more than 3½ years old. In both countries it has been accompanied by low consumer price inflation and even lower rises in producer prices. The Fed chairman, Alan Greenspan, and the Bank of England governor, Eddie George, have spoken about the best chance in 30 years of achieving stable inflation-free growth. Yet the two countries conspicuously lack any feel-good factor.

In the US this absence has been demonstrated not only by the sweeping Republican congressional victories but by an election campaign, nasty even by American standards. It was impossible to listen even to classical music radio channels without being interrupted by knocking copy advertisements on the lines of: "Helen X is a liar. She says she is tough on crime. She voted three times against the death penalty."

Feel-bad is not only in the mind. I attended a Federal Reserve Bank of New York colloquium on wage trends which echoed widespread concern at growing "pay inequality". But would so many people worry about inequality if national pay levels had been rising sufficiently to bring up living standards of the bottom 20 or 30 per cent? The root problem is that average hourly pay peaked as long ago as 1978 and has since fallen by 14 per cent, with no improvement even in the current upturn.

The conference papers concentrated on the rising premia for skill, education and experience, which leaves a lot to explain. I suspect clues are to be found in the less polite subjects of drugs and illegal immigration. Drug prohibition lies behind a good half of US crime, which in turn offers a more attractive, if high-risk, prospect to many young people than training for promotion in fast food outlets or supermarkets. Immigration helps to raise wages and reduce pay differentials in the North American continent but increases the differentials inside the US. The now-approved California Proposition 187, denying social services to illegal immigrants, is a characteristic feel-nasty response.

The Clinton team helped to bring nemesis on itself by its 1992 election slogan "It's the

economy, stupid!" - itself a stupid slogan. This not only made the boom look like a slump. Much worse: it whipped up already unrealistic expectations of how much government action could achieve. These disappointed expectations have been transformed into a vicious hatred of everything to do with government, except the subsidies and payouts it distributes.

The similarities between the US and the UK extend to monetary policy. Both the Fed and the Bank of England have tightened policy and are expected to tighten further, not because of actual inflation, but preemptively.

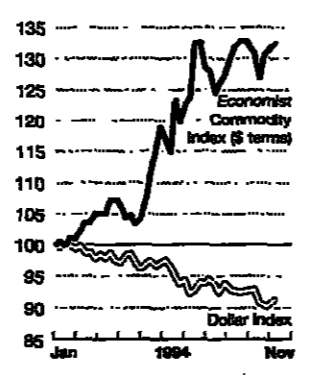
There are two sets of indicators which trigger US inflation alarms. First there are signs of excessive growth. Real GDP has been rising at over 3½ per cent per annum - maybe more - well above the estimated trend rates of 2½ per cent. And, in contrast to the UK, official estimates show that the recession's slack has already been more than absorbed and that capacity utilisation is at 5.8 per cent, below the best guess for the "natural rate" above which inflation is supposed to accelerate.

Those sceptical of macroeconomics can point to a second set of warning signals from the markets. Dollar commodity prices have risen by more than 30 per cent this year. This has

been paralleled by a much less spectacular rise in the inflation rate for non-food intermediate materials, from below 0 at the turn of the year to above 3½ per cent. The dollar has fallen by well over 10 per cent against major currencies, and bond yields have increased by over 2 percentage points. But the gold price has not risen.

Greenspan attributes the rise in bond rates to deep-seated forces. Like many central bankers he worries most about the budget, saying in a recent speech that "entitlements are programmed to grow at a rate that will surely exceed the growth of the tax base". Even the Congressional Budget Office, which is more pessimistic than the Administration,

Commodity prices up, dollar down



does not expect the federal deficit to exceed 2½ per cent of GDP in the years immediately ahead. But there are widespread fears that the growth of social security payments and existing Medicare programmes, could, as the population ages, push the deficit up towards 10 per cent early in the next century. Greenspan spoke of "higher long-term bond rates with both a greater inflation premium and an expectation of higher real short-term rates in the future as government spending increasingly crowds out private spending".

The Clinton Administration intends to make the most of Republican rhetoric about fiscal responsibility. But, in common with many in the financial markets, it draws only limited comfort from the Republican commitment to a balanced budget constitutional amendment. As this has Democratic support as well, its chances are higher than they have ever been. But the texts in circulation lack a means of enforcement, and nearly all the specific items in the Republican 10-point "Contract", used as a sort of manifesto during the congressional elections, pledge either spending increases or tax reductions. The more realistic hopes of the budget warriors centre round the report of the Commission on budget entitlements chaired by Senator Bob Kerry (Democrat, Nebraska) due soon to report. One idea is that the pension age should be indexed to the actuarial expectation of life at the relevant age.

There are those who say that, for all its fiscal worries, the Fed itself has been "behind the curve" in its own monetary area. The Fed funds rate - the one interest rate under its direct control - has hovered around 4½ per cent, only about 2 percentage points above the inflation rate and remarkably low so far into an expansion. Henry Kaufman, the noted New York analyst, has said even a funds rate 100 basis points higher would not be sufficient to bring the growth rate down to trend. The Fed Open Market Committee meets tomorrow, and David Hale of Kemper Financial Services plausibly suggests there is a 95 per cent chance it will increase short-term rates by at least 50 basis points and a 50 per cent chance it will increase them by 75 to 100 basis points. Meanwhile short-term commercial paper rates have risen well above the Fed funds rate in anticipation.

THE FT INTERVIEW: Klaus Hänsch



Mr Klaus Hänsch, the new president of the European Parliament, has made a brisk start: his aim is to establish the assembly as a more powerful and more credible force in the European Union.

Late last week, the parliament forced a delay in the investiture of the new Commission, due to take office on January 7, until (probably) late January.

Under the Maastricht treaty, the parliament has the power to endorse or reject the entire Commission. Mr Hänsch argued that parliamentarians from those states due to join the Union on January 1 - Austria, Finland, Norway and Sweden - must take part in the parliament's vote if their commissioners are part of the new Brussels executive. "We must have a parliament of 16 voting on a Commission of 16," said a senior aide to Mr Hänsch.

A no-nonsense German Social Democrat, Mr Hänsch's ambition is clear. He wants the Strasbourg assembly to have rights in EU decisions almost equal to the Council of Ministers. This would give him a weight nearly equal to the president of the Commission, which proposes EU laws.

Already there are those in Brussels who sense that Mr Hänsch could become a front-rank Euro-player, particularly once presidency of the Commission has fallen from Mr Jacques Delors, a powerful proponent of EU integration, to the untested Mr Jacques Santer from Luxembourg.

Leading member states, moreover, are keen to clip Brussels' wings, while Germany wants to enhance Strasbourg's powers in the course of the 1996 constitutional review of the Maastricht treaty.

With this moderately fair wind behind it, the parliament has, under Mr Hänsch, already seized an additional right to individual, public vetting of appointees to the Commission - by threatening not to put the endorsement of the entire Commission on its agenda. It now plans US Senate-style confirmation hearings on the 21 new commissioners.

At the centre of Mr Hänsch's programme is an appeal to democratic legitimacy. "He is a conviction politician," the aide says, as well as a pragmatic, procedurally-versed veteran who entered the parliament



Klaus Hänsch: 'I see national parliaments as partners'

General of the assembly

when it was first directly elected in 1979.

Close collaborators describe him as on the right of the German Social Democratic party, in the mould of Mr Helmut Schmidt, former German chancellor.

Mr Hänsch says he wants "to concentrate on legislative work and the most important priorities" and leave aside issues the parliament cannot influence, such as EU policy on Bosnia.

The central idea is not an indiscriminate grab for more power but ensuring what he calls "double legitimacy". Euro MPs should vote on decisions which national assemblies have not examined, because they are taken without parliamentary debate by ministers, or more frequently, by their officials meeting behind closed doors in Brussels.

This is not a zero-sum competition with national legislatures, he insists, but an attempt "to obtain control over European policy-making, to do

what national parliaments can not do".

He is formalising joint committees of European and national MPs to strengthen the role of elected lawmakers in EU decision-making processes and to correct an imbalance which favours the executive. "I don't see [national parliaments] as rivals; I see them as partners," he says.

Europe's parliament "must have full rights of co-decision" in all laws where the Council of Ministers can reach a decision by majority voting, he argues. Maastricht partially gave the Strasbourg assembly this right of veto over the Council, but excluded a number of areas such as environmental and transport policy.

Mr Hänsch would not extend the parliament's blocking rights into areas in which Council decisions must be unanimous, such as on treaty, tax or nearly all foreign policy questions. But "where governments can be outvoted, all legislation needs to be legitimised

twice," argues Mr Hänsch. "If there is no consensus" between the European Parliament and Council, he says bluntly, "then there will be no law".

Euro-MPs have so far twice vetoed the Council, most recently over a voice telephony law, on which the issue was not proposed liberalisation but the assembly's right to detailed and early consultation on it.

Yet Mr Hänsch is wary of too much inter-institutional muscle-flexing. "We have to be able to explain that there is real public interest and therefore to choose very carefully before saying No," he cautions.

He is concerned by public perception of the European Parliament as an inefficient gravy train, and intends to keep a tight rein internally. MEPs' expenses, and penchant for needless foreign travel, have been trimmed.

"The Ball express is off his agenda," quips one European Parliament official.

More quietly and importantly, Mr Hänsch is insisting votes on laws take place shortly after the plenary in which they were debated, and that debates be structured so that commissioners and ministers can be scheduled to attend them and be held to account. Since September, the Commission president has attended a regular question-time. These are fairly obvious reforms, but no previous parliament leader got close to achieving them.

In Commission confirmation hearings, says Mr Hänsch, "we will demonstrate that we can have a proper debate at the [parliamentary] committee appropriate to that commissioner". He warns that "we may find the competence and attitudes of one or two commissioners so unacceptable that we have to vote [the whole Commission] down" - but he thinks this improbable.

Use of such a nuclear weapon would be uncharacteristic of a man who above all wants clear, efficient decisions, comprehensible to citizens mistrustful of Europe. The prize, and his self-appointed task, is to bring the European Parliament to the 1996 Maastricht review as an equal partner, achieved on the basis of its record, which neither Brussels nor the member states could any longer think of ignoring.

David Gardner

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Lottery charities body will make right start

From Mr David Sieff.

Sir, Permit me to present a more positive picture of the National Lottery Charities Board than that in your article. "Charities facing long delays for funds from lottery" (November 11). Contrary to the impression given in the article the NLCB is making good progress and has the full backing of many in the voluntary sector, including the National Council for Voluntary Organizations.

Since the board was appointed less than four

months ago it has met regularly and agreed its draft guidelines. As I mentioned in my speech at the Charities Aid Foundation conference, we expect to appoint our chief executive in early December and we will begin full consultation with the voluntary sector in early January. I went on to say: "We will be inviting applications during the course of the coming year with the aim of making grants towards the latter part of 1995 - if we can do it earlier, we will. But we shall do it properly."

With more than 700,000 voluntary groups eligible to apply to us and in excess of £100m available to distribute in the first year alone, the NLCB will be the UK's largest general grant-giving foundation. It would be irresponsible in the extreme for us to promise to rush grants out early in 1995, before we have in place the professional staff and systems necessary to ensure that we are fair, effective and transparent in all our actions. The NLCB has a unique opportunity to make a tremen-

dous impact on the lives of the poor and disadvantaged in society, and to improve the quality of life in the community. We are determined to be successful in this and we believe that time spent in getting things right now will lay solid foundations for the future.

David Sieff, chairman, The National Lottery Charities Board, 7th Floor, St Vincent House, 30 Orange Street, London EC2E 7HH

Consensus is way forward to a minimum wage

From Mr John Monks.

Sir, In his article on the TUC's budget submission ("TUC demands £1bn boost for employment", November 7), Robert Taylor was good enough to report my remarks on GMTV the previous day that the level of a national minimum wage would need to be "set in the light of the economic circumstances at the time" of its introduction. However, this was just part of the picture.

First, the minimum wage should be fixed at around half male median earnings, a position which has been TUC policy since 1981.

Second, the social partners should be consulted by government before the precise level is fixed.

Third, there is a constructive role for trade unions to play in

monitoring its implementation and enforcement.

The hourly rate has dominated much of the debate to date on a national minimum wage. But there are far-reaching institutional questions which arise from the commitment. Our intention in the year ahead is both to campaign against low pay and to build some consensus with employers on the way forward. That we are making progress can be seen from the recent survey by the Engineering Employers' Federation, which found 40 per cent of its members favoured the introduction of a national minimum wage.

John Monks, secretary general, Trades Union Congress, Congress House, Great Russell Street, London WC1B 3LS

Franchised post offices popular with customers

From Mr Mike Flanagan.

Sir, Mr David Erdman's comments (Letters, November 8) that Post Office Counters advises its most valued customers (old-age pensioners) to open bank accounts with our competition is preposterous. Ninety-five per cent of Britain's post offices have been run by sub-postmasters for the past 350 years. Business in post offices which we have moved from Crown to sub-postmaster operations has grown twice as fast as the rest of our network. Our research shows these offices are popular with our customers. They are conveniently located - often in smart new premises in shopping centres - and are more accessible, too, with car parking facilities and significantly longer opening hours. Opening post offices in part-

nership with sub-postmasters is a cost-effective way of operating them. The savings we make provide opportunities for reinvestment elsewhere in the business and help to support the network of rural sub-post offices which play such a vital role in the community.

Post offices franchised to leading supermarkets are a small but valuable part of our network - just 130 out of a nationwide network of 20,000 post offices. Franchising is just one of the ways in which we are developing our network to improve services to customers by providing a mix of offices catering to customers' needs. Mike Flanagan, network director, Post Office Counters, Drury House, 1-18 Blackfriars Road, London SE1 9UA

Engineers need body to exert influence

From Sir John Fairclough.

Sir, Rowland Morgan (Letters, November 5) seems intent on reliving old battles and restricting the role of the new Engineering Council to being a lobbyist for narrow sectional interests. What engineers need urgently is a governing body that can speak with a powerful single voice to enable the engineering profession to exert its proper influence on government and society in general. In order to deliver this important objective, the new arrangements must encompass the present Engineering Council, the engineering institutions, industry

and academe. The idea that we can have a unified profession which excludes the institutions is a contradiction in terms. If the new central body is to have credibility it must represent the whole profession and not operate in some quasi-trade union role.

Rowland Morgan is wrong to suggest that the Engineering Assembly has not been allowed to express an opinion on the new arrangements. In fact, when the assembly met in July, I gave a presentation on the unification proposals which was followed by a lively discussion. Also, a number of the motions debated at the

assembly covered the unification issue. More recently, I presented the unification proposal to the chairmen of the Engineering Council's regional branches and they gave their unanimous support.

The time is fast approaching when we have to take a decision. I hope that all engineers will grasp the opportunity that we now have to unify the profession and make its presence felt in the corridors of power. John Fairclough, chairman, Unification of the Engineering Profession, 10 Maltravers Street, London WC2R 3ER

In the (p)ink

From Mr Derek Prag.

Sir, I was very grateful, while in Salt Lake City last month, to find daily in the hotel newspaper's shop copies of the FT, US edition, looking just like the UK edition - and making the hands just as dirty.

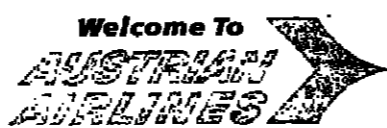
Can it be that, when the arrangements for the US edition were made, an indispensable requirement was that the printer's ink should be just as easily transferable from page to finger as is the case with the parent edition? Derek Prag, 47 New Road, Digsby, Weymouth, Dorset DT4 6AQ

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Monday November 14 1994

Brisk start for Mr Kohl

Germany's coalition has made a business-like start to the new legislative period by rapidly completing talks on a new government programme ahead of Chancellor Helmut Kohl's planned re-election by parliament tomorrow. The sharp decline in the coalition's majority to only 10 seats from 134 before last month's election has resulted in a welcome reduction in the propensity for squabbling between Mr Kohl's conservatives and the liberal Free Democrats.

In its efforts to present an image of unity, the coalition has glossed over some divisive issues in areas such as law and order and extending citizenship to foreign residents. That leaves a risk of future conflict open. However, in its general prescriptions for streamlining government, lowering the tax burden and increasing incentives for employment, the coalition is pointing in the right direction.

Policy proclamations are one thing, but delivery is another. The true test of the government's mettle will be whether Mr Kohl shows not only the will but also the capacity to improve Germany's economic structure and increase its decision-making role on the international stage. In both areas, reflecting his weakened domestic position and the complexity of post-cold war politics in Europe, the chancellor will be fighting against adverse circumstances.

On the international front, Mr Kohl's re-election comes at a particularly difficult time. The US move to stop enforcing the United Nations arms embargo against Bosnia will severely strain Europe's efforts to maintain a consensus on the conflict in former Yugoslavia. The chancellor's need to take greater account of the opposition Social Democrats will constrain Germany's ability to play a fuller part in European defence arrangements, in spite of the lifting of constitutional hurdles on deployment of troops outside Nato.

An end to privilege

Finance ministers and chancellors seldom jump at the prospect of making the tax system more efficient. Mostly they need the added incentive that reform will be popular. By all accounts, Mr Kenneth Clarke is becoming convinced that reducing biases against employment in the coming UK budget would meet this need. Making the system fairer as well as more effective. What he may not have realised is that improving the tax treatment of savings offers the same prize.

Raising the UK's meagre gross saving rate is a worthy goal, but the evidence is that governments can do little to make their citizens save more. What they can determine, however, is the level of public dis-saving, and the allocation of private savings. After his tough budget last year, Mr Clarke can already claim to have done the first of these. He should explore the other side of a pro-savings policy in his second budget, acting to ensure that the resources he has freed do not have to be mangled by a distorting tax system, but flow to the areas offering the highest pre-tax economic return.

The best way to achieve such a neutral treatment of savings would be to move to an expenditure system of taxation. Governments have understandably balked at the thought of such a drastic reform. But the introduction of fiscally privileged forms of savings - personal equity plans, tax exempt special savings accounts, and, most recently, the venture capital funds which Mr Clarke announced last year - means that most personal saving now receives close to an expenditure tax treatment.

Heavily penalised

Granting tax privileges incrementally is politically attractive, perhaps, but it goes against the goal of taxing funds efficiently. Offering a mass of different tax concessions only further encourages savers to select assets for the relative economic return. The system is now less distortive than it used to be. But, as the Institute for Fiscal Studies pointed out in its recent "Green Budget", housing and pensions still, enjoy negative effective tax rates, whereas standard interest-bearing accounts are heavily penalised.

well as scepticism in Germany about wider supranational European decision-making, may force Mr Kohl to trim his sails. Foreign affairs played little part either in the election campaign or in the past three weeks' coalition negotiations. It is on its domestic record, above all on its handling of the economy, that Mr Kohl's coalition will stand or fall. Necessary budgetary consolidation has been achieved so far mainly through tax increases rather than spending reductions, making fresh cuts in public expenditure a priority for the next four years.

Painful decisions

The Free Democrats have successfully pressed for a commitment to phase out next year's 7.5 per cent tax surcharge as soon as possible, and to reassess it annually. However, if it is to achieve the conditions for tax cuts, the government will have to prepare the electorate for painful decisions on pruning spending, above all on social security. In view of the Social Democrats' strong position in the Länder (federal states), the government will need a large measure of SPD compliance to carry out such policies.

Budgetary control will be a less onerous task if - as the Bonn finance ministry is assuming - real economic growth continues during the next three years at this year's rate of 2.5 to 3 per cent. However, a combination of this year's 2 percentage point rise in long-term interest rates and next year's sharp tax increases may make 1995 growth less buoyant than the government is at present forecasting. Depending on the need for more budgetary rigour, the Social Democrats may eventually try to engineer formal entry into the government, in a grand coalition with the Christian Democrats, as the price for supporting Mr Kohl's economic policies.

Unlike the apparent situation in President Bill Clinton's US, in Germany the economy will continue to shape governmental fortunes. It will also determine whether Mr Kohl can, during the next four years, realise his goal of big steps forward in European integration at the 1996 EU inter-governmental conference or whether he has to settle for something rather less ambitious.

If there is one defence for the arbitrary extension of fiscal concessions, it is that sooner or later a privilege becomes a right. This year, Mr Clarke faces just such a moment of truth with regard to TESSAs, introduced in 1990. TESSAs were a way of offering some of the advantages of PEPs to the non-share-owning classes. By opening a TESSA, individuals could receive tax-free interest on savings of up to £9,000, for a period of five years. For the first TESSAs, that grace period will end in January.

Destabilising exodus

There are now 4m TESSAs, with combined funds of over £20bn. Little of this money represents additional saving; by and large, account-holders simply moved funds into TESSAs to earn the extra return. Letting the tax concession lapse risks a highly destabilising exodus of funds, as sophisticated savers rush to transfer their money elsewhere. It would also imply that extending fiscal privilege to the less sophisticated was a temporary gimmick, not a long-term commitment to treating savers more equitably.

The least wealthy hold most of their wealth in interest-bearing accounts. Rather than allowing the gap between rich and poor savers to widen, Mr Clarke should decide to narrow it further, combining PEPs and TESSAs into a single scheme. Individuals would be able to earn tax-free returns by investing in any kind of financial asset, including ordinary cash deposits. This could be achieved at little or no cost to the exchequer, if necessary, by setting a limit on contributions somewhat lower than the existing £9,000 limit for PEPs.

Reform along these lines, when combined with the ongoing reduction in the value of mortgage interest relief, would go a long way towards a neutral tax treatment of household savings. Mr Clarke may think fiscal neutrality a rather dull theme for budget day, but he could claim a more resounding motive. Namely, that a government which wants more people to leave the security of the dole, for the ups and downs of the labour market, has no business penalising their attempts to provide themselves with the security of easily accessible savings.

W elcome it may be, but is it enough? That is the question worried bankers are asking as passenger revenues finally pour into Eurotunnel's coffers this week.

At the time of the rights issue in May, the projected cost of servicing the £7.9bn mountain of debt raised to finance the cross-channel venture was put at £546m for 1995.

Since then delays have eaten into forecast revenue, while short-term interest rates have risen. Within 12 months, after a full season of operations, it will be clear whether Eurotunnel is capable of surmounting this awesome hurdle against a deteriorating financial background. Meantime the markets are offering a provocative answer to the conundrum about the bankers' huge exposure. In the secondary market in Eurotunnel's main £5.8bn tranche of bank debt, the price quoted by a leading dealer on Friday was 55 pence in the pound for those willing to sell and 62 for would-be purchasers, against the par value of 100 at which most of the 230-odd banks involved still carry the loan on their books.

The market is small in relation to the total debt. But its assessment of the prospects points to a potential write-down of just over £30m and a large negative net worth for the company.

Since the worst of the price fall came after the rights issue, the market clearly believes the slender but positive year-end cash balances projected in the rights document will be negative. Participants in this market, including bank lenders to Eurotunnel, appear not to regard the tunnel operator as financially viable in its present form.

As for the equity shares, they are down more than 70 per cent from their peak and are worth a little less than when floated in 1987. The prospectus then promised a dividend yield on the offer price of 16 per cent by 1994, 34 per cent by 1996 and 60 per cent by 2003. Now 2003 is the earliest date Eurotunnel dares to forecast an initial payout.

According to one battle-weary trader last week, with tongue only slightly in cheek, the market may still be 15 years too cheerful about the dividend timetable. While Eurotunnel is a splendid engineering achievement, it is hard to deny that it has been a financial fiasco so far.

Could private sector financing for such a large infrastructure project have been better managed? Just possibly. In the heady banking climate of 1987 the banks would have been better advised to demand a bigger cushion of equity before advancing money. Whether it would have been available is a moot point. British institutional investors, in particular, were reluctant. And with good reason. The lessons of history

Could private sector borrowing for the huge Channel tunnel project have been better managed, asks John Plender

More smoke than light



are not encouraging. Indeed, the first rule of big international infrastructure project financing in the 19th century was that initial shareholders rarely emerge well.

That was certainly true of Egypt and Ferdinand de Lesseps' Suez Canal project. The country lost £5m on the shares before defaulting on its loans when the canal company's revenues were insufficient to service the related debt. As for the Panama Canal, another project started by de Lesseps with private finance, it had to be completed under US government ownership.

Domestic British infrastructure projects, including rail and tunnel ventures, were not uniformly disastrous in the Victorian period. Yet many, including the first tunnel under the Thames, generated rewards only for later owners, sometimes after two or three bankruptcies.

This serves to underline the peculiar nature of project financing. In most normal bank-lending business, the problem for the bank is that it knows less about the project or business to be financed than the borrower. The peculiarity of much

large-scale project finance is that there is symmetry in the lack of information: the borrower and lender may both be in the dark given that such projects are inevitably one-off. Small wonder the historic record is so disheartening.

In the 19th century, English financiers sought to overcome the problem by using uncalled capital. Investors were required to make an initial down-payment, and could be called upon for further capital as money was needed. The snag, apparent in the railway boom of the 1840s, was that this encouraged speculation: speculators who found themselves unable to pay would dump partly-paid shares, so depressing the market. Financiers responded with innovations such as vendor shares for contractors, and preference shares and debentures, giving secure income to investors.

Today forecasting for infrastructure projects is more scientific. Yet neither Eurotunnel, the railways nor the banks really know how buoyant or otherwise revenues will be. And, ironically, the banks have unwittingly found themselves in the role of 19th century investors,

since their original loan has turned out to be no more than a down-payment, followed by urgent calls from Eurotunnel for more.

Meantime financiers have come up with a possible answer to the 20th century equivalent of the dumping problem. The development of secondary markets in the debt of distressed companies means - or so their proponents claim - that weak banks may not pose a threat to debt refinancing. They can pass the buck to others by selling on the debt.

At Eurotunnel the market is still small. According to Mr Martin Dent, a London-based vice-president of Bankers Trust, which reckons to have the lion's share of the business, £120-130m of Eurotunnel's debt is now traded in the secondary market. The reason the trade is limited is that the sale of debt would force the banks to recognise a loss equivalent to 45 per cent of their exposure. A specific provision would then have to be made against profits.

This is an odd reflection on the nature of bank provisioning, which is designed to deal with the problem of the lack of marketability of bank

assets. In the absence of a market, provisions and write-offs take place only late in the day, when the loss of value is beyond dispute. Yet the development of secondary markets in the debt of distressed companies appears to make a nonsense of this traditional accounting practice.

A further reproach to the accounting profession is that the trade in bank debt also reflects other forms of creative accounting. According to Gary Klesch of Klesch & Company, a London-based debt broker and analyst, much of the Eurotunnel secondary market activity has been driven by banks swapping Eurotunnel debt for paper in more creditworthy financial institutions carrying a lower interest coupon.

In many continental European countries, auditors allow the new debt to be put onto the books at the value of the old, despite the loss of income. The bank then has the benefit of a less risky asset that has to be backed by less regulatory capital.

Some banks are now beginning to make specific provisions against Eurotunnel debt, so market activity is driven less by accountancy arbitrage than by direct sales for cash. For once the provisions have been made, the trade no longer has such unpleasant implications for the carrying value of the loan in the banks' books. The message, not for the first time, is that bank provisioning is driven more by an upturn in bank profitability than any realistic assessment of loan assets by banks and their auditors.

The big question about this market, which has always worried the Bank of England, is whether new investors will be willing participants in any financial reconstruction of Eurotunnel. If the market's judgment about the value of Eurotunnel's debt is right, an important test will come soon. A serious short-fall of revenue next year would point to a stay of interest payments and a capital reconstruction, probably involving the banks in swapping debt for equity.

If, as Gary Klesch and others in the market argue, new investors have an overwhelming interest in improving the company's financial position, Eurotunnel could end up with a more viable capital structure. The secondary market in debt would then take off, since the debt-equity swap would require banks to make provisions in their accounts, making it easier for them to sell out.

In theory, the trade could then grow from the present £130m to a multi-billion pound market. That potential no doubt explains why big US institutions like Bankers Trust and Continental Bank are prepared to tangle in what, for the moment, is a very small pond.

Fault line on road to monetary union



PERSONAL VIEW

Yet that is the picture emerging from the latest discussions initiated by Karl Lamers, the foreign policy spokesman for the Christian Democrats in Germany's Bundestag.

His insistence in last Monday's Financial Times (Personal View) that there is a "fundamental link between monetary and political union" undoubtedly reflects a powerful strand of opinion. For example, Mr Hans van den Broek, the European Commissioner, declared in London recently that economic integration was a means, not an end: the end was a political union.

Experts in the development of the Ecu believe that the critical next step in Ecu is to establish institutional parameters necessary for the Bundesbank to lead a move forward through Maastricht's Ecu stages. Yet just as these issues become

conjoined key players' minds, there are signs of basic divisions of opinion on all aspects of the institutional agenda. For once, French opinion, and British, seems markedly at variance with that in Chancellor Helmut Kohl's CDU.

In Brussels recently, Alain Lamassoure, the French minister for Europe, warned that a Maastricht-style attempt to push a "federalist" agenda for the 1996 inter-governmental conference, or indeed one that was seen to attack national sovereignty, would fail to pass either a referendum or through the Assembly Nationale.

His remarks were a pointed response to Mr Lamers' notorious paper which, in the course of its clumsy advance across the national sensibilities of virtually every Union member, had lectured France on her attachment to "the sovereignty of the *etat* nation which has long since become an empty shell".

Moderate opinion in the CDU and the Christian Social Union, its more Euro-sceptical sister party, has subsequently expressed concern about the paper, especially its suggestion of a "hard core" of fast-track Euro

states. Ironically, however, this is perhaps the most logical part of the paper. As Mr Lamers, its co-author, said last week: "Someone who, like John Major, accepts the method of variable geometry in principle can neither disapprove of nor prevent the establishment of a hard core."

The deeper problem lies elsewhere and has received less attention: the current German approach

is strongly centralist. It explicitly envisages that the European Commission will "take on features of a European government". It downgrades the Council of Ministers to a second chamber of the European Parliament. It seems to ignore the role of national parliaments. In fact, it seeks to create a single European state. Karl Lamers in Paris last week was quoted as argu-

ing for a federal concept of Europe that would eventually become "a state and not just a confederation of states". This is precisely the fear of those who see Ecu as a means to political union. Now the shape of that political union is being blurred out by its most influential advocates, Helmut Kohl's CDU.

It is no wonder that Dominique Baudis, French CDS leader in the European Parliament and a CDU ally, objected to the use of the term "federalism" in any 1996 treaty, to the idea of the Commission achieving supranational governmental powers, and to the downgrading of the Council of Ministers.

The Franco-German fault line is becoming clear, sharpened by France's presidential elections. French opinion increasingly seeks to base European reform on giving power to national governments, national parliaments and the Council of Ministers. It is difficult to see how an Ecu based on abolition of national currencies and a political union strategy based on a Commission/European parliament duopoly could satisfy French electors. However closely economies may

converge, without more agreement on the next steps to political co-operation it is difficult to see how Ecu could progress. No wonder the distinguished European Parliament constitutional expert, Fernand Herman, is gloomy. Observing that the chances of achieving unanimity at the 1996 inter-governmental conference are practically non-existent, he added: "The chances of realising a lasting monetary union without reinforcing the political union are just as slim."

It has become conventional to praise the CDU/CSU paper and Mr Lamers himself for having initiated a valuable debate. With its unflinching frankness it has laid the key questions of Europe's political and economic future on the table, in good time for 1996, while exposing profound differences between Germany and her chief European partners. It is these differences that will need to be overcome.

Graham Mather

The author is an MEP and president of the European Policy Forum.

Conflict of loyalty

Only a few weeks ago The Guardian newspaper was huffing and puffing about Sir Paul Beresford, a junior housing minister, being allowed to continue working as a part-time dentist. The disclosure cast further doubt on the prime minister's judgment.

So what would the newspaper make of the revelation that Professor Bernard Debré, a Gaullist MP, is to take over as France's aid minister? Not only is he a close political ally of prime minister Edouard Balladur but he is also the doctor who led the team that operated on President Mitterrand for prostate cancer in 1992.

If anyone should know about the president's illness - the chief factor that has unleashed ferocious presidential rivalries - it is Dr Debré. Talk about an inside job...

On tour

Who was that tucking into Copacabana's first-class fare on the British government's latest huge trade mission to India? Bill Jordan, president of the Electrical and Engineering Union, seems to have made a bit of history by becoming the first prominent trade union leader to agree to be dispatched overseas to help beat the drum for

British industry. But will he be the last?

Jordan, who roused the CBI's annual conference with his call for more skills training, remains firm favourite to become the next full-time general secretary of the Brussels-based International Confederation of Free Trade Unions. A decision on that globe-trotting job is expected by the end of the month.

Training tips

Things seem to be picking up for the family of the late Robert Maxwell, the disgraced media tycoon. Betty Maxwell, his widow, has started popping up everywhere giving her version of life with the megalomaniac.

Her new biography - *A Mind of My Own* - can only increase sympathy for young Ian and Kevin Maxwell who are due to stand trial next year for their involvement in alleged fraud relating to their late father's media empire. However, it raises the question of whether the authorities acted correctly in banning *Maxwell the Musical* on the grounds that it might prejudice a fair trial for the Maxwell boys.

Talking of fair trials, a young jock looking remarkably like Ian Maxwell was testing out the equipment last week at the £200-a-year Mecklenburgh Health Club, normally a favoured haunt of slim-line lawyers rather than recipients of legal aid.

OBSERVER



'I left my wallet in my other lucky suit'

Perhaps he is getting in training for next year's big fight with the Serious Fraud Office?

Playing a joker

Hope that Christopher Walford, the new Lord Mayor of London, is not as eccentric as some of his predecessors.

Walford, a partner in Allen & Overy's corporate practice, is the first master of the Worshipful Company of Makers of Playing Cards to make it to the Mansion House. The only other master of the company to make such a splash was Albert Altman who was chairman

of the Bridge House Estates committee when the Prince of Wales opened Tower Bridge 100 years ago. It coincided with Altman's silver wedding and the birth of his 12th child. The poor man was so overwhelmed that he celebrated by naming his new offspring Sylvia Bridget.

Soft touch Vlad

At last it looked as though the US visit of Vladimir Zhirinovskiy, the Russian nationalist politician, was going to end in a punch-up. "Vlad The Mad-As-Hell: Russian Leader 'Trashes Plaza Hotel'". screamed the headline in Friday's New York Post.

However, on reading the fine print it seems that the editors of Rupert Murdoch's New York rag had been using the word "trash" rather loosely. Vlad had just been doing what lots of New Yorkers do - complaining about the poor service at Donald Trump's Plaza hotel. Indeed, he was remarkably civil about the Plaza's shortcomings by all accounts.

A new boy speaks

Sir James Goldsmith is on a mission. Should the most flamboyant new member of the European Parliament prove anywhere near as successful in politics as he has been in

business his colleagues had better look for new jobs. Becoming an MEP was almost a spin-off for Goldsmith from his campaign against Galt. However, once inside the temple of Strasbourg and Brussels, he has decided that the only rational response to a massive, wasteful "Eurocracy" was to campaign fervently for its destruction.

"This place is a putrid pseudo-democracy, full of uprooted trash," rages Brussels' most outspoken new boy, who has set up his command post in the drab office of the L'Autre Europe group he heads. Like a big cat abandoned in Belgravia he stalks the halls of the labyrinthine parliament building, bemused, appalled, but very far from intimidated.

Members encountered in the corridors are right to jump, as if they might be eaten. It is his sole reason for being there. Despite his venture into politics he does not regard himself as another Silvio Berlusconi or Ross Perot. "The only man ever to go into parliament with honest intent was Guy Fawkes. I feel the same way," says Goldsmith.

Third party

The good news is that the more go-ahead of Britain's insurance companies are starting to investigate the digital superhighway. The bad news is that they want to see if fire sprinklers are attached.

Reynolds warns of threat to N Ireland peace plans

By John Murray Brown in Dublin

Mr Albert Reynolds, prime minister of the Irish Republic, warned yesterday that the peace process in Ireland could be damaged if his coalition government was toppled by a split. He was commenting shortly before the Labour party, the junior partner in the coalition, said it would delay a decision about withdrawing from the government, a move that would precipitate a general election.

The Labour decision came after Mr Reynolds promised the party's leaders a full explanation tomorrow of the point on which they had threatened to quit. The dispute centres on the appointment of Mr Harry Whelan as president of the High Court while continuing as attorney-general.

The Labour party's decision, reached after an emergency meeting of its MPs in Dublin, means that today's critical meeting between Mr Dick Spring,

Labour leader and foreign minister, and Sir Patrick Mayhew, UK Northern Ireland secretary, will go ahead as planned. The two men are due to review progress on the joint framework document for a durable settlement for the province.

But the Dublin government's crisis may have been postponed, not averted, with many Labour MPs adamant yesterday that the party should quit the coalition, whatever Mr Reynolds may offer as an explanation.

Mr Reynolds's view about the risk to the peace process was echoed by Mr Gerry Adams, president of the Sinn Féin party, the IRA's political wing. "The peace process is still at a delicate and sensitive stage", he said. "I hope that the present strains between the government and the IRA can be resolved satisfactorily and that party political and other difficulties can be put aside in the national interest so that the vital work in support of a peaceful res-

olution is carried on." Sinn Féin in particular is anxious to avoid an early election in the republic to avoid the risk that it might face a new prime minister, perhaps less accommodating to republican sentiment than Mr Reynolds, and his Fianna Fail, traditionally the party of constitutional republicanism.

The peace process was shaken last Thursday by the murder of a postal worker in the Northern Ireland town of Newry. It was the first killing in the province blamed on IRA members since the IRA ceasefire on August 31.

In a move to distance itself from the Newry incident, the IRA issued a further statement over the weekend, saying the use of all weapons had been banned since the ceasefire.

Mr Adams will hope to refocus attention on the peace process when he visits the UK this week for the first time since London lifted its long-standing ban on him on October 31.

Brussels probes fraud in Euro-aid projects

By Peter Marsh in London

The European Commission's anti-fraud unit is investigating a series of alleged financial irregularities involving cash spent on projects to boost the economies of European Union's poorer member states.

The inquiries are likely to be controversial because of the general view in Brussels that the amount of fraud in its regional funds programme is minimal.

However, an official in the anti-fraud unit, Uclaf, which is being expanded because of mounting political concern about the scale of fraud, said it was "naïve" to think there was little or no fraud in the EU's structural aid programmes.

Structural aid covers transport, industry and sewage treatment projects in the EU's poorer countries such as Spain, Portugal, the Republic of Ireland, Greece and parts of Italy. In most cases, cash paid by Brussels is matched by similar amounts from member governments.

Regional aid schemes account for about 25 per cent of the EU's budget, but the proportion will rise sharply over the rest of this century.

Of 90 current investigations by Uclaf, about a third involve cases of suspected fraud in structural aid projects. The rest involve agriculture spending, promotion of tourism and illicit import or export declarations.

Experts believe that between 2 per cent and 10 per cent of the EU's annual budget (€68.5bn) budget is wasted through fraud or related financial irregularities. Most reported fraud cases concern agriculture spending.

The Uclaf view is that much of the fraud in the structural aid programme is hidden by the failure of member states to report on where the spending is taking place.

An Uclaf official said: "When a member government spots an irregular payment [in this type of programme] the tradition is for it to drop the project from the list of schemes being funded and start a new one without telling Brussels. We have to fight against this kind of practice."

Uclaf's stance may be helped by new rules introduced in the summer, under which Brussels could tell member states that they will be less likely to be given cash if they fail to comply.

Among the Uclaf cases involving structural funds are several instances of cash apparently being diverted to companies or individuals instead of being spent on training programmes.

In other investigations, officials are looking at a series of road-building projects which appeared to lead to excessive profits for specific contractors.

Euro-fraud squad turns on the heat, Page 4

THE LEX COLUMN

Marketing gilts

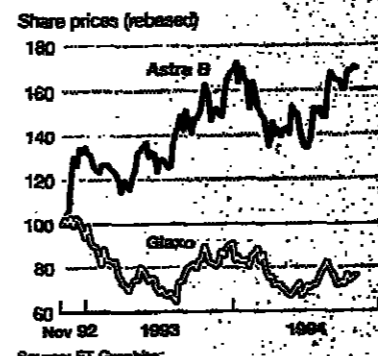
Should the Bank of England make the gilt market more investor-friendly?

That is the central question the Treasury will have to answer in its review, launched last week, of the government debt arrangements. Traditionally, the Bank has run the market more to suit its needs than those of investors. Perhaps that matters little when it was a near-monopoly supplier of bonds to UK investors. But as it increasingly competes for funds on global markets, so the Bank needs to pay more attention to meeting investor demands.

Investors have a long list of changes they would like to see. The priority is probably the inauguration of an "open repo" market under which they would be able to borrow and lend gilts freely. Such a system would increase liquidity in the market and enable investors to go short. With the Bank already investigating the idea, repos could be given the go-ahead before the Treasury review is finished. Other items on investors' wish lists include: streamlining the range of gilts available so there were fewer stocks with greater liquidity; announcing in advance which stocks the Bank was to issue so investors would have time to think what they wished to buy; and paying interest growth, so removing the disadvantage gilts suffer by comparison with many rival bonds.

The Bank may think it is beneath its dignity to woo investors in this way. But taxpayers cannot be happy that gilts yield more than many other governments' bonds despite the fact that UK inflation prospects are now relatively good. It would be false to attribute all this spread to technicalities about how the market operates. But if a more investor-friendly approach could shave even a little off the cost of funding government debt, it would be well worth it.

Glaxo underperforms Astra



In the case of retailers, there has been no recent change in fundamentals, merely a heightened awareness of the poor consumer spending climate. But the modest shift from cyclical to financials appears prompted by valuation anomalies. Share prices of chemicals companies stand at a multiple of 14 times next year's earnings, while those of steel group Thyssen are at 10 times. These ratings are high by historical standards. The opposite is true for banks, whose shares stand on extremely low valuations.

Until recently investors have been willing to wait patiently for the full upsurge in profits from cyclical companies. But the moves over the past month suggest that such patience is wearing thin and shareholders are casting around for new areas of out-performance. For bank shares to rebound strongly there will need to be a change of mood in the bond markets. Canny investors may do well to make the switch now.

Astra

Despite worldwide constraints on healthcare spending, there is still a bright future for pharmaceutical companies whose research and development is productive. Astra, the Swedish drug group, demonstrated as much last week. While most drug groups are struggling to grow, Astra posted a 24 per cent increase in earnings for the first nine months of the year.

More is yet to come. Astra should benefit from regaining control of distribution channels for its medicines in the US and Japan. This month's \$800m marketing joint-venture with Merck should enable the company to increase US sales of the ulcer drug Losec, its top-selling product. The medicine

accounts for only 19 per cent of the US ulcer market, where Glaxo's rival Zantac drug still has a clear lead, compared with 40 per cent in the UK. Astra's sales will be further enhanced when its second most important product, asthma drug Pulmicort, is approved in the US.

Astra's shares are on a prospective price earnings multiple for 1995 of 14 - only a slight premium to US drug stocks. Yet analysts expect Astra to increase earnings by nearly 20 per cent a year over the next five years. That compares with not much over 10 per cent expected from the US pharmaceuticals sector. There are two technical reasons why the group's market rating does not reflect its fundamental value. Swedish institutions have been forced to sell shares because of rules limiting their dependence on one stock; and US investors have been put off by the lack of a US listing. With a New York quote planned for early next year, the shares should rise.

Japanese steel

Interim losses from Japan's steel industry, the world's largest, were as the market expected: truly awful. The combined losses from the top five steelmakers were double those of the same period last year. It is a familiar story. Domestic demand was weak as manufacturing industry continued to de-stock into a mild upturn; and the benefit from growing sales in the US and Asia, where prices have risen, was wiped out by the yen's strength.

The best that can be said is that the industry is at the bottom of the cycle. The companies believe losses will fall sharply in the second half. Cost reductions are continuing and demand from Japan's car and electronic appliance industries for relatively high-margin products such as galvanised steel is rising. Spot prices for flat products have also started to pick up. If contract prices firm, the recovery in sales and margins will continue into next year.

But the reprieve will only be temporary. Restructuring during the recession has been cosmetic by US and even European standards. Japan still has excess capacity of around 20m tonnes on most estimates. It would be too much to expect across-the-board capacity cuts during a cyclical upturn. But unless the industry uses the next few years to reduce capacity in chronically unprofitable commodity products, the next downturn will be just as bad as the recent one.



Germany's Michael Schumacher (above) leading Britain's Damon Hill in the Adelaide Grand Prix yesterday. On the 36th lap the pair crashed out of the race, which meant that Schumacher became the first German world motor-racing champion. Hill would have had to beat him to win the title. Yesterday's race was the climax to a Formula One season marked by tragedies and controversies.

Delors plans public agencies for EU

Continued from Page 1

the Danish economics commissioner who chaired the trans-European networks task force, believes that new partnerships between the public and private sector would help to overcome those obstacles.

The planned "Euro-project authorities" or "vehicles" would help to manage, operate and reg-

ulate each network, and would be able to raise money. Membership would include national transport ministers, construction companies, consumers, the European Investment Bank and the European Commission.

Brussels officials emphasise that the agencies would not be rigid bureaucracies. "It would be a different concept for each project," said one official. Mr Neil

Kinnock, Britain's new commissioner, will have to assess the proposals when he takes over the Brussels transport portfolio in January. In an interview last week, however, Mr Kinnock, a former leader of the Labour party, expressed enthusiasm for the trans-European networks, which he said would require "unprecedented" levels of public and private finance.

Microsoft aims service at PC users

Continued from Page 1

service. Already, competitors are alleging that this represents an unfair use of Microsoft's near-monopoly in the market for PC operating systems - about 85 per cent of all PCs sold today use Microsoft Windows - to limit competition in the on-line service market.

"Microsoft should show some restraint and not try to leverage

its operating-system dominance," Mr Steve Case, chief executive of America Online, said at an industry conference last week.

Such charges come as the US Justice Department is scrutinising Microsoft's recently announced plan to acquire Inuit, a developer of personal finance software, for \$1.5bn.

However, if Microsoft can avoid legal barriers, it appears poised to expand the use of on-line com-

puter services. Fewer than 10 per cent of individual PC users now subscribe to any on-line service, but industry analysts say Microsoft's entry might quickly double that number.

Mr Gates has been identified as the buyer of an illustrated manuscript by Leonardo Da Vinci at auction in New York last Friday for \$30.5m - the 10th-highest sum ever paid at auction for a work of art.

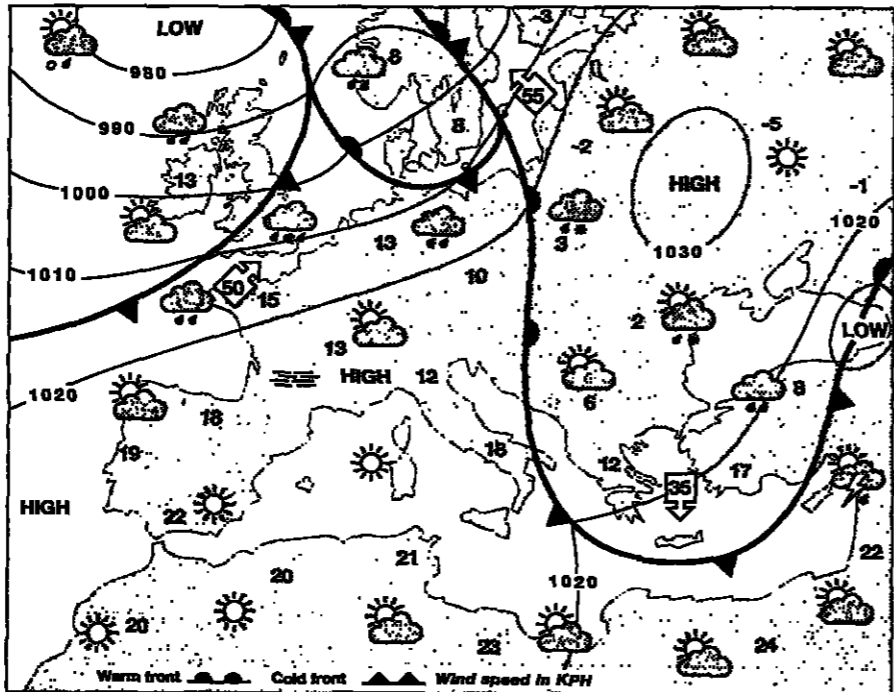
FT WEATHER GUIDE

Europe today

An active low pressure system, north of Scotland, will bring unsettled conditions to most of western Europe. The Benelux, England, Denmark and northern Germany will have outbreaks of rain. Despite the rain, temperatures will rise to 11C-15C. Poland, southern Norway and Sweden will also have rain. Areas further inland may have snow. It will stay cold across Russia. The Balkan states will also have low temperatures and some areas could have light snow. Most of France and the Alps will have sunny spells. Sunny and warm conditions will prevail over most of Spain, Portugal and Italy. Greece and Turkey will have showers and cold conditions.

Five-day forecast

A series of low pressure systems will bring unsettled conditions to most of western, central and northern Europe. At first it will continue mild, but starting on Wednesday temperatures will fall steadily. Across Spain, Portugal and the western Mediterranean it will remain sunny and mild until Thursday. South-eastern Europe and the eastern Mediterranean will have more showers.



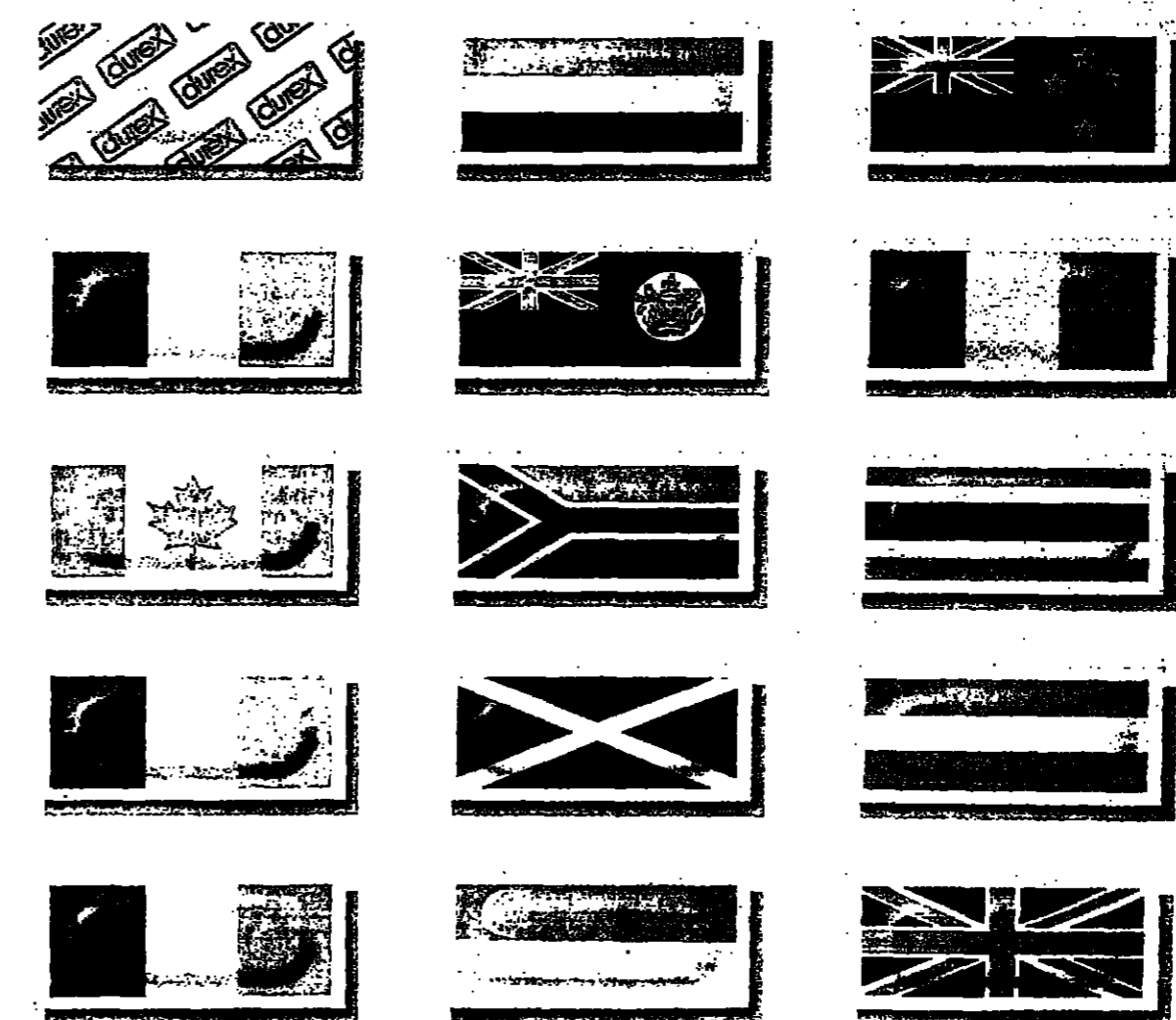
TODAY'S TEMPERATURES

	Maximum	Minimum
Abu Dhabi	30	24
Accra	31	24
Algiers	20	15
Amsterdam	15	10
Athens	18	13
Atlanta	23	18
B. Aires	32	27
Bham	15	10
Bangkok	36	28
Barcelona	18	13
Bellini	13	8
Belfast	9	4
Belgrade	10	5
Bein	26	21
Bermuda	21	16
Bogota	21	16
Bombay	28	23
Buenos Aires	23	18
Budapest	15	10
Cheng	18	13
Chong	25	20
Cairo	25	20
Cape Town	16	11

	Maximum	Minimum
Cardiff	13	8
Casablanca	13	8
Chicago	13	8
Cologne	13	8
Dakar	21	16
Dallas	28	23
Dahli	15	10
Dubai	31	26
Dublin	11	6
Dubrovnik	17	12
Edinburgh	14	9
Faro	14	9
Frankfurt	12	7
Geneva	12	7
Gibraltar	20	15
Glasgow	14	9
Hamburg	12	7
Harbin	12	7
Hong Kong	28	23
Honolulu	28	23
Istanbul	14	9
Jakarta	31	26
Jeremy	14	9
Karachi	35	30
Kuwait	33	28
L. Angeles	22	17
Las Palmas	22	17
Lima	22	17
Lisbon	18	13
London	15	10
Luxembourg	11	6
Lyon	13	8
Madeira	14	9
Madrid	12	7
Manila	28	23
Melbourne	18	13
Mexico City	23	18
Miami	27	22
Millan	12	7
Montreal	14	9
Moscow	31	26
Murich	14	9
Nairobi	25	20
Naples	20	15
Nassau	27	22
New York	17	12
Nice	18	13
Nicosia	18	13
Oslo	15	10
Paris	14	9
Perth	13	8
Prague	10	5
Rangoon	32	27
Reykjavik	10	5
Rio	21	16
Rome	15	10
S. Francisco	18	13
Seoul	18	13
Singapore	23	18
Stockholm	12	7
Strasbourg	12	7
Sydney	14	9
Taipei	28	23
Tampere	12	7
Tel Aviv	22	17
Tokyo	25	20
Toronto	11	6
Vancouver	9	4
Venice	12	7
Vienna	10	5
Warsaw	10	5
Washington	20	15
Wellington	15	10
Winnipeg	9	4
Zurich	12	7

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ARGUSON
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FRENCH FINANCE AND INVESTMENT

Monday November 14 1994

It is easy to understand why Crédit Lyonnais, the embattled state-controlled banking group, felt the need to give staff a piece of advice last month as they discussed with clients its legacy of past financial problems. Maintain the official line, it said, "but always with a smile".

A few weeks after the bank reported losses for the first half of the year of FF4.5bn (£534m or \$866m) on top of 1993 losses of FF6.9bn, that smile might finally be starting to seem justified. Mr Jean Peyrelevade, the chairman, has claimed that the cost of its history of reckless loans is firmly behind it.

In the same way, prospects are beginning to look up for the French economy as a whole. Observers of the French scene are feeling more optimistic. "All the figures are starting to show quite a strong recovery," says Mr Piers Butler, head of French equity sales for Smith New Court.

Job creation is rising and other indicators such as business confidence, investment and consumer spending are looking positive. Insee, the official statistics agency, recently raised its growth forecast for this year to 2.2 per cent, and to 3.1 per cent for 1995.

Equally, analysts predict that the CAC-40, the index of leading quoted companies on the Paris Bourse, is set to start rising again after languishing for more than two years. Performance for smaller and more entrepreneurial companies may look more promising still.

Matif, the French financial futures exchange, has continued to develop new products and report substantially increased volumes in derivative trades, much of it coming from business in other countries.

The government's privatisation programme has been proceeding well, with a sharp rise in the number of private investors and both personal and institutional over-subscription for shares in formerly state-controlled giants such as Renault, the motor group so symbolic of the nation.

In the wake of the success of the "Balladur bonds" issued



Jacques Chirac (left) declared his candidacy for the presidency this month, triggering a struggle on the right against Edouard Balladur (centre). The socialist Jacques Delors could benefit.

Smiles that may be a little bit forced

Prospects are starting to look up for the economy but the forthcoming presidential elections may affect the mood of investors and the stock market is yielding disappointing results, writes **Andrew Jack**

last year, take-up figures are looking promising for the FF20bn in government bonds announced over the summer which are geared for the first time at the retail sector.

One element of uncertainty likely to affect the mood of investors in France is the forthcoming presidential election. The race for the Elysée Palace is scheduled for next May, although illness or political tactics from Mr François Mitterrand may bring the date forward.

Mr Jacques Chirac, the mayor of Paris and head of the Gaullist RPR Party, became the first serious politician to declare his candidacy at the start of November. The move is likely to trigger a divisive struggle on the political right against Mr Edouard Balladur, the prime minister.

This in turn may boost further the prospects for Mr Jacques Delors, the socialist whose term as president of the European Commission ends in December, and who looks likely to declare his candida-

ture. He is already neck-and-neck with Mr Balladur in the polls.

Nevertheless, Mr Edmond Alphandery, economics minister, argues that the markets should not be affected by the election because it is unlikely that any of these candidates would change the fundamental direction of economic policy. "It would be absolutely irresponsible and would damage their credibility to do so," he says.

More generally, the future challenges for the French economy are far from over. While there is optimism for the future on equities, current performance still leaves much to be desired with the stock market yielding disappointing results since late 1992.

Privatisation has so far generated some FF110bn for the French government. But the

remaining potential candidates include some state-controlled companies - such as Caisse Nationale de Prévoyance, the insurance group, and Seita, the tobacco monopoly - which could prove far more complex and less remunerative to sell.

While job creation in France has been rising, new job seekers and other factors wiped out any gains. After a temporary dip over the summer, the September jobless figures showed unemployment at a record high of 3.35m or 12.7 per cent of the labour force.

Mr Gwinn Haache, an economist with James Capel, says unemployment during recessions has been proportionately much higher in France than other countries and seems to continue to ratchet up while the government's investment in training seems to have had little effect.

Mr Chirac has already made the problem of employment, which he said threatens the destruction of society, a central theme of his election campaign. He is reflecting a widespread fear, which is set to make unemployment a centrepiece of the political debate over the next few months.

Mr Alphandery concedes that labour market inflexibility is one of the most important challenges for the French economy over the coming months. He rejects as "neo-classical" suggestions that the minimum wage presents a problem. He calls instead for greater investment in training, reform of the education system, and the possible lessening of social security charges on companies.

He highlights two other significant problems. The first is

the budget deficit, which the government is forecasting at FF301bn for this year and FF275bn for 1995, or 4.6 per cent of GDP. Most analysts expect it to end up being nearer to 5 per cent.

The second is the funding shortfall of the social security system, which could trigger tax increases next year. Mr Alphandery says there is a need to reform the retirement system, pensions and the costs of health care provision.

Pensions reform is set to be one of the key debates over the next few years. The economics minister does not expect any legislative proposals before the next presidential election, but the development of funds will radically change the shape of the financial sector.

French business will face a broader range of increasingly tough challenges. Deregulation

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 - Banks: scars begin to heal Page 3
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- Editorial production
Gabriel Bouman

national investors accompanying the growth of pension funds could reduce the need for the *royaux durs* network of cross-shareholdings between different companies.

Many are questioning the extent to which French state-controlled companies and even those in the private sector hold large equity stakes and exert management influence in businesses in sectors entirely unrelated to their own. For instance, several of the largest insurance companies control banks, the bad property loans of which have dragged down results substantially.

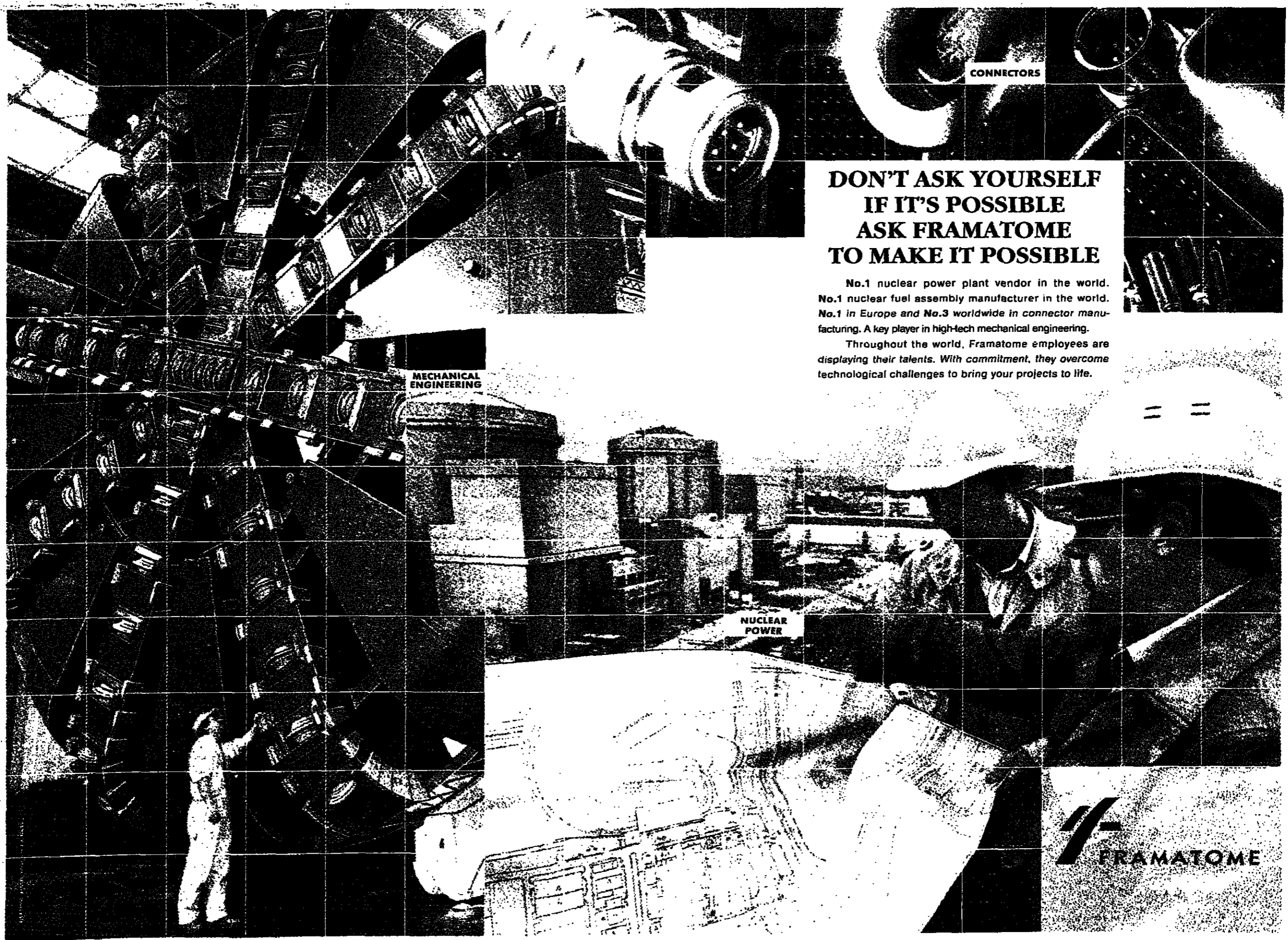
Institutional pressure - from abroad as well as within the country - may also help trigger a far broader debate on corporate governance within the country. Traditionally many French companies have tended to be extremely hierarchical and run like personal fiefdoms, with a close-knit network of directors under the control of a single all-too-powerful chairman-chief executive.

One illustration cited by Mr Butler of Smith New Court is the fact that many French chief executives refer in their companies' annual reports to what "je" did and not "as they would in Anglo-Saxon enterprises - what "we" did.

He also highlights the continuing and controversial role of the tightly-networked French intellectual elite in rotating between the boards of companies: individuals who have graduated with top academic marks from the top colleges and administrative corps, rather than rising through the ranks based on management ability and knowledge of their business.

Meanwhile, there are still pressures for further reforms to improve the rights of minority shareholders. In spite of new regulations, takeover conditions in practice seem all too often to give too much power to dominant shareholders and leave little voice to their smaller brethren.

While the French may be content as they reflect on the renewed expansion of the economy, they ought perhaps to admit that their smile is still just a little bit forced.



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FRENCH FINANCE AND INVESTMENT 2

The economy is becoming more cyclical, writes David Buchan

The patient seems cured

In the end, the French will not like it. But the fact that the French economy is becoming more cyclical has, for the moment, its pleasant upside - with Insee, the official statistics agency, recently raising its 1994 growth forecast to 2.2 per cent and its prediction for 1995 to above 3 per cent.

Previously paranoid that its estimates for 1994-95 would be considered influenced by the imminence of presidential elections, and therefore over-optimistic, the government was thrilled to find its growth predictions exceeded by more neutral bodies.

Insee, for instance, has predicted that by next month the French economy will be growing at a year-on-year rate of 3.1 per cent. In its 1995 budget, the government also had a figure of 3.1 per cent - but as average growth for the whole year, rather than the initial momentum with which Insee now forecasts the French economy will enter the 1995 election year. Two other institutes - OFCE and CQE - are estimating growth next year at 3.5 per cent and 3.2 per cent respectively.

Mr Edmond Alphandery, the economy minister, concludes that all this showed "our diagnosis and therapy were the right ones". And, indeed, the government deserves praise for

not letting the gloom and doom of 1993 rush it into an indiscriminate stimulation package for the economy. However, the government's wise self-restraint also stemmed from the yawning deficits of the central government and welfare system, and from the need to bring them eventually within the bounds prescribed by the Maastricht treaty.

The nature of the French recovery has now changed.

The economy is now beginning to fire more strongly on its internal demand piston - and nowhere more vigorously than in the automobile sector

One of the factors frightening many French companies last year was that they found themselves holding stocks which were actually falling in price. So they started to shed stocks, which in turn cut production even further and so aggravated the mini-recession of 1993. At the start of this year, this destocking started to slow down inside France, but internal demand was still weak and the main boost to growth came from strong external demand for French goods.

But the economy is now beginning to fire more strongly

on its internal demand piston, and, aptly, nowhere more vigorously than in the automobile sector. This has provided the big surprise. "It was generally expected that car sales would fall back after a strong second quarter," said Insee in its mid-October forecasting note. "Not a bit of it - registrations, seasonally corrected, have stayed at the same level in the summer as in the spring."

But it is not just Renault and

into their wallets and purses has been the stemming, at least, of what had seemed an inexorably rising tide of unemployment.

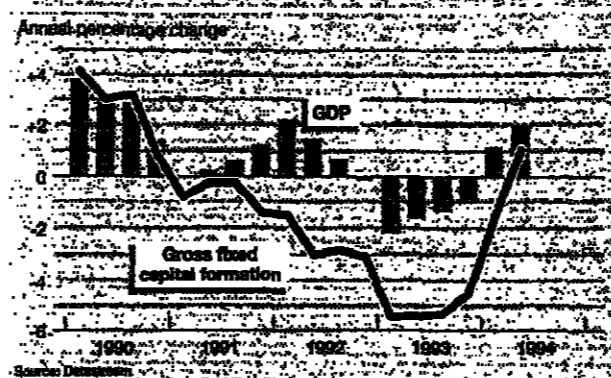
According to Insee, some 120,000 jobs were created in the first half of the year, and perhaps a total of 180,000 to 200,000 over the whole of 1994, thereby slightly shortening the dole queues.

Linked to this marginally rosy employment picture is the behaviour of savers. Since mid-1993 France's high savings rate has been falling, reflecting either people's belief in imminent pay rises or, more likely, their relief at not having to keep "precautionary savings" to guard against imminent unemployment.

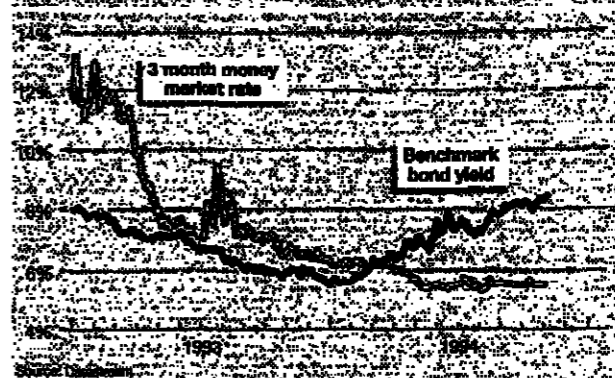
After falling year on year in the early 1990s, like water cascading down a series of fountains, investment is at last picking up and is expected to accelerate. For instance, OFCE predicts that, on an annual average, 1994 will see only a 0.7 per cent growth in investment, but that by the end of 1994 the level will be 5 per cent higher than at end-1993.

This year's rise in long-term rates would have cramped the investment increase. If it were not the fact that most French companies have more than enough cash on hand to fund new capital spending without

Real investment and output growth



Interest rates



the bank manager's help. But some experts cast doubt on the duration of this recovery in investment - forecast to increase by 7.9 per cent in 1995.

Another worry for the medium-term future is, of course, the budget deficit, which the government intends to rein in to FF275bn next year or 4.6 per cent of gross domestic product, but which

most analysts expect will turn out nearer 5 per cent.

In addition to the central government budget, there is also the chronic shortfall in the social security system, which leads a large number of observers to predict tax increases after the May 1995 presidential election. These will probably take the form of a rise in the so-called

contribution sociale généralisée, a tax levied on all forms of income (earned and unearned) and more and more necessary to balance all the loopholes in the income tax system.

But apart from these longer-term shadows, the sky is reasonably clear over the French economy, with one exception - the persistent clouds over French financial

markets which have seen 2.5 percentage points added to long-term rates this year and some 15 per cent shaved off the Bourse's 250-company index.

There is just an outside danger that further trouble on the markets could hurt the real economy; a further fall in equities would make people feel poorer, with knock-on effects on the property market.

Profile: EDMOND ALPHANDERY

French way of doing things

Mr Edmond Alphandery, the French economics minister, is no stranger to foreign lands - but he remains convinced that his country's way of doing things has much to commend it.

Formerly a professor of economics and a graduate of the Institute for Political Studies in Paris, he also attended both the universities of Chicago and Berkeley.

At a breakfast meeting last week at Bercy, the modernist headquarters of the ministry of finance and economic affairs, he was in a reflective mood about the distinctive French approach after a busy travel schedule to other countries.

"There is a difference in perception between the strength of French economy and how it is perceived overseas," he says. He points to sustained growth in the last few months. "I'm very confident of the prospects for the economy."

His adder: "The momentum has been maintained in the second half of the year. People thought it might slow down but it hasn't. Consumption has taken up the baton, particularly in consumer durables, and the last motor of the econ-

omy - investment - is now firing. Even small and medium-sized companies are more optimistic."

One of the distinctive elements of the French approach to economic management is the way it has tackled privatisation. He says the experience has been favourable compared to other countries, "many of which have been a failure".

The economics minister explains his government's distinctive approach towards economic management to Andrew Jack

Most recently, he points to the partial privatisation of Renault, which was more than 15 times over-subscribed by institutions and has also received a high level of demand from private investors. He points out that the state has so far raised a total of FF100bn from sales.

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taken on whether to proceed with the sale of Seita, the state-controlled tobacco monopoly which sells Gitanes and Gauloises, and for which the search has now begun for an adviser to consider the possibility of a sale.

He says that Assurances Générales de France, the insurance group, will be next in line to offer shares to the public. "It will be sold as soon as possible depending on market conditions," he says. "There are no particular obstacles."

Mr Alphandery argues that there are four principal challenges for the French economy. The first is the amelioration of unemployment. "There is insufficient flexibility in the labour market," he says. "Many measures need to be taken."

He highlights the role of professional training, particularly within companies, and argues that there is "a lot of room for manoeuvre" in reducing the social security taxes paid by companies. He is less convinced that the minimum wage is a real problem.

His second challenge is the

Continued on opposite page

A business sector that is still in the doldrums

Cloud hovers over insurers

As other sectors of French business begin to climb out of recession, a continuing dark cloud hovers over many of the country's insurance companies - highlighted by their most recent gloomy results.

"The first half results were quite disappointing," says Ms Claudine Basselier, an analyst with Société Générale in Paris. "The real estate crisis had a strong effect and caused the insurers to make huge provisions."

A large part of these property losses have nothing to do with direct investment as part of the insurers' portfolios, however. They reflect instead a historical legacy, with companies such as GAN, UAP and AGF controlling banks which, in turn, have heavy outstanding mortgage commitments.

One vivid example was GAN. The group reported losses of FF840m in the six months to June 30. Yet this was primarily result of provisions against Union Industrielle de Crédit, which reported losses of FF925m alongside agreeing a restructuring which included ring-fencing its FF18.9bn property portfolio.

"The insurance companies were till very recently state-owned and many of the businesses they acquired were as a result of state pressure and were not part of their core strategies," says one analyst. Divestment from this approach may prove one of the most significant challenges for the sector.

However, while this process of empire building in domestic activities has perhaps already begun to fade with the privatisation of groups such as UAP, international ambitions remain at the forefront of many of the companies.

Take Mr Jacques Friedman, head of UAP, who goes to China at the end of this month

to prepare the way for a representative office in Beijing for his company. "I'm convinced that within the next three to 15 years - no-one can say when - that there will be a very important increase in insurance in Asia," he says.

Mr Claude Bébéar, head of Axa, says: "Business is becoming more global and the market more concentrated. I need to be a big business myself to compete." For him too, China and India represent vital markets for the next century.

Axa is just one of several companies which is equally

agents as a barrier to entry to the market," says Mr Dawson. "Paradoxically, they have also become a barrier to exit." Agents can act as a powerful lobby to prevent any commercially-justifiable increase in premiums that may lose them business to their competitors, for example.

The cost and obstructiveness of the agents helped explain why a number of mutuals - with their own sales staff with low, fixed costs and an ability to screen potential clients effectively - have been able to do so well in the market. The

Spain but no equivalent in France. Axa has begun experimenting with a service in France, but only under a different name, and an attempt to keep it low profile to avoid tensions with its agents.

On the other hand, insurers also have great opportunities. Life assurance sales continue to boom, which analysts put down to the demand for long-term savings products in the absence of a developed private pensions industry. It is this which is likely to prove one of the most important battlegrounds in the coming years as the industry develops and insurers fight over it with banks and other financial institutions.

The risk, according to Mr Dawson, is that the government may play off pensions reform against other revenue generators. There have periodically been discussions about removing the existing tax exemption for investment income on policies more than eight years old, for example.

Over the next few months, observers of the insurance scene also have two other important events to track: the scheduled privatisations of both CNP and AGF.

Mention of CNP in particular causes many rivals to grind their teeth. It has a virtual monopoly of life assurance sales through post offices, tax offices and state deposit bureaux. But current discussions in the run-up to the share sales could remove this network, leaving the company with next to no goodwill. Meanwhile, Ms Basselier argues that insurers may have to get used to fundamental changes such as a drop in capital gains. But she remains relatively optimistic. "We are expecting 1996 and 1997 results to reach more normal levels," she says.

Andrew Jack

For many years, insurance sales have been dominated by a network of tied sales agents protected by law. These are now increasingly becoming a burden

busy scrutinising markets more close to home. It just announced a \$10m joint venture in Turkey and - like UAP - has an eye on increasing its non-life business in the UK.

However, Mr Tim Dawson, an insurance analyst with Lehman Brothers in London, says: "I have yet to see much evidence of European insurance companies becoming serious profit- and shareholder-oriented organisations. They dilute their intrinsic worth with acquisitions outside the home market. I would like to see them not thinking about being number one in Europe but aiming instead for a 15 per cent return on equity."

Another highly significant structural problem for the French insurance industry to resolve relates to its distribution network. For many years, insurance sales have been dominated by a network of tied sales agents protected by law. These are now increasingly becoming a burden. "People always talked about

effect was painful, with GAN, for example, cutting premiums heavily to gain market share - but more recently reaping the costs. "There has been crazy competition because of the mutuals," says Mr Claude Tardil, director general of Axa.

Now there are new new challenges as well. The first is *banassurance*, with many of the banks now dominating the market for the sale of individual life assurance. "There has been very hard competition with the banks on life assurance for individuals," says UAP's Mr Friedman. He adds that more complex, non-life products require more experience of claims records and remain more the preserve of insurers.

Equally, there is the growth of telephone insurance operations. Compared to other parts of Europe - notably the UK with its widely-copied Direct Line innovator - France remains underdeveloped. Thus AGF now has a highly successful direct car insurance arm in

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PENSIONS REFORM

Strains start to show

For French financial markets, there are few issues more important over the next few decades, or more sensitive, than the future of the country's pensions system.

The burden of an ageing population is placing a strain on the present pay-as-you-go system, whereby the pensions of today's retirees are paid by contributions from the active workforce. Reform of the system, and the possible creation of capitalised pension funds, promise a significant boost to the French stock market, the venture capital industry and to long-term savings. The implications are profound, ranging from improved financing for industry, to the reshaping of France's brand of capitalism.

The problem is that reform also promises a welter of complications. From opposition from trade union groups to disputes between banks and insurance companies about how new schemes should be structured, and to the government's concern not to stifle consumption. As a result, the centre-right administration is treading cautiously on the issue. Legislation on the pension fund reform, due originally in the first half of this year, and then this autumn, now appears unlikely before next spring's presidential elections.

The needs of France's social security system, however, and of its financial markets, suggest that some steps will have to be taken. "At the end of the day we need capitalised pension products to help strengthen our financial system and to respond to demographic pressures," says Mr Alain Leclair, deputy president of asset management at Banque Paribas.

The demographic pressures are clear. France's ageing population means that the proportion of over-60s will increase from about 20 per cent of the population today to about 27 per cent in 2020 and one-third in 2050. "This may seem like a long-term problem, but the younger generations are already finding it hard to finance the retirement of the older," says an executive at one French insurance company.

The strains have prompted a series of reforms to the existing system. Mrs Simone Veil, the minister for social affairs, has eased the burden on the pay-as-you-go scheme by extending the period of contributions from 37.5 years to 40 years and increasing the number of best-paid years on which pension payments are calculated, hence reducing the average.

Separately, Mr Alain Madelin, the minister for enterprises and economic development, has introduced a reform which provides tax incentives for artisans and independent workers who invest in private pension schemes. The law, passed through parliament in the summer, has recently taken effect.

Mrs Veil's measures have already had an impact. "The deficit under the existing system seemed set to reach about FF200bn by the year 2020," says one pensions expert at a French merchant bank. "It now seems more likely to be in



Simone Veil: her measures have cut pensions deficit



Alain Madelin: has introduced tax incentives for self-employed

the region of FF100bn by that date."

It is still, however, a big gap. Proponents of pensions reform argue that the case for the creation of capitalised pension funds is further buttressed by the potential benefits to industry and financial markets.

The Patronat employers' federation, for example, is urging the creation of pension funds which can be managed by the companies themselves and used to buttress their balance sheets. Mr Jacques Barrot, chairman of the finance committee in the national assembly and a champion of pension reform, recommends that banks, insurance companies and individual businesses should get incentives to establish pension funds and that at least half of employee contributions should be invested in their own companies.

The French government has itself emphasised the potential benefits of reform. Mr Edmond Alphandery, the economy minister, has claimed that the development of capitalised pension funds would represent a significant boost for the Paris Bourse. "As long as important privatisations are in the pipeline, we need funds that have a majority of their holdings in shares," he said.

Some industry observers see the potential for a further important change in French capitalism. By creating powerful pension funds, like those in Britain and the US, French companies would be less dependent on cross-shareholdings with other businesses in their search for stable investors. "Obviously such a change does not take place overnight," says one analyst at a securities company in Paris.

"But pension funds could provide the answer to the perennial French problem of capitalism without capital."

The government's willingness to act and the prospects for the various proposals hinge on political considerations. Reform of the pension system is a sensitive subject and with presidential elections less than seven months away, the administration is now demonstrating caution.

French trade unions, which are represented in the management of the existing system, oppose reform. "It is a policy that would benefit the rich. It is they who can afford to pay for a supplementary scheme and get the tax deductions to do so," says an official at the Confédération Générale du Travail, the communist-led union organisation.

Mr Marc Blondel, the general secretary of Force Ouvrière, a more moderate union, advances both social and economic arguments against the formation of capitalised pension funds. "Reform would end the solidarity between age groups and social classes... it would put a brake on economic recovery," he says, pointing to the dampening effects it might have on consumption.

For most observers, the sensitivity of the subject and the potentially complex nature of reforms suggest that reforms must await the presidential polls. "The idea may appear to have lost some of its urgency," says one insurance executive. "But it is a vital issue which cannot be put into retirement."

John Ridding

After the difficulties of the past few months, prospects are brighter, says Andrew Jack

The banks' scars begin to heal

After the storm, the calm. Prospects are beginning to improve for French banks as they digest the difficulties of the last few months and raise their eyes to look towards the rather hazy future ahead.

It has not been an easy time for the sector. The latest set of results in the last few weeks still show some of the scars caused by turmoil in the capital markets and the overhang of enormous property and bad debt provisions following extravagant lending turned sour.

One of the low points of 1994 - without which no commentary on the sector would be complete - refers to the continuing saga of Crédit Lyonnais, the embattled state-controlled banking group, which has been hit by one piece of bad publicity after another.

Its rival banks - many now in the private sector - have looked on with some amusement at the additional state support provided without much evidence so far of a particularly aggressive strategy to sell any of the more profitable or core parts of the bank.

However, most grudgingly admit that Mr Jean Peyrelade, the chairman appointed by the state last November in place of Mr Jean-Yves Haberer, has played a shrewd political game in his efforts to nurse the bank towards recovery.

In a battle that became public at the end of September this year, the bank was forced to delay publication of its

half-year results as a dispute raged between its directors, the auditors, the treasury and the banking commission over the size of provisions necessary to cover past losses.

It finally reported losses of FF4.5bn for the first six months of the year, and an additional FF10.1bn in provisions - on top of losses for 1993 announced in March of FF6.9bn, a ring-fenced property portfolio of FF40bn underwritten by the state, and a recapitalisation over the summer.

Substantial further provisions are likely, and - while stressing that everything must be done in the right order, starting with a detailed justification of the provisions that will be necessary - the government seems set ultimately to provide the support to keep the bank solvent. That has helped start to boost the price of its non-voting certificates d'investissement, its only traded shares, albeit from a record low.

Elsewhere across the sector, analysts are more confident. "The first half figures have got the banks off to a nice beginning," says Ms Sheila Garrard, an analyst with Lehman Brothers in London. "Their two big problems were real estate lending and the small and medium-sized companies."

She argues that "things have

stopped getting any worse" regarding provisions, while economic recovery in France should begin to make loans to companies more stable again from the start of next year.

Mr Jean Sassus, an analyst with Société Générale in Paris, says: "Things are not bad at all. European banks have not suffered from the drop people expected because of the decline in capital markets business."

The primary reason, he

US, in France the process has been moderated by sensitivities to unions and employment legislation.

But reducing costs is not the only challenge. "The big question-mark is: where is the revenue going to come from?" says Ms Garrard. "It's much tougher and there is no obvious area that the banks can develop that they are not working on already."

One battle that the banks seem to have won is for the sale of life assurance. Their existing customer base and wide retail network has allowed them to dominate the market in the face of competition from the insurance companies when handling effectively a simple savings product.

This diversification of activity is set to continue, with international growth and capital markets expansion being high up the list. Crédit Lyonnais, for example, remains committed to the high-cost, long-term strategy of building a strong retail branch network across Europe.

Mr Sassus says the future for banks lies in the provision of more value-added services, such as asset management, capital markets and possibly a battle for control of pension funds as the French industry begins to develop over the next few years.

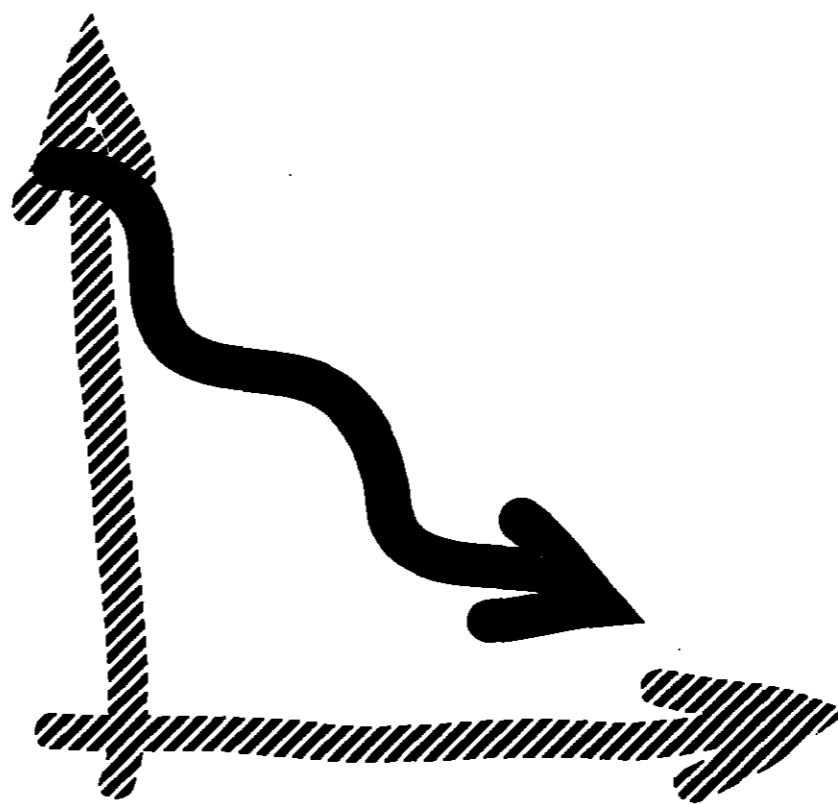
Certainly Mr Marc Viénot, head of Société Générale, says: "I am personally totally convinced about the role of capital markets. Derivatives will continue to develop with or without international supervision."

Equally, Ms Garrard sees the scope for greater packaging of financial products, with banks beginning to start charging more systematically for services provided to customers. Meanwhile, banks need to face changes to the distribution systems of their products. In late September, Paribas launched a telephone banking service amid much publicity, modelled along the lines of the success of the similar provision in the UK.

This may herald an important trend for the future, although rival banks have been keen to point out the existence of their own long-standing equivalents - not least the services accessible through Minitel, the computer information network available by phone to every French household.

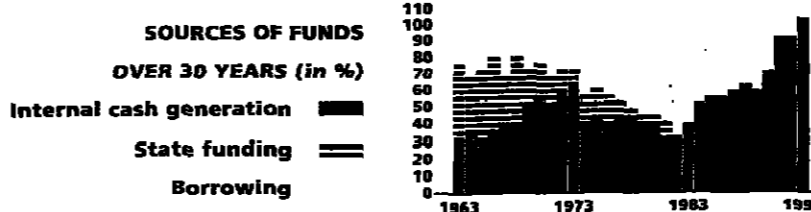
More controversially, Mr Sassus suggests there is still scope for reform of current French legislation, which prevents banks paying interest on current accounts. The traditional fear has been that this may cause inflationary pressure, and that the corresponding increase in charges on accounts will act against the interests of customers on lower incomes. "That really would change the banking landscape," he says.

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Four principal challenges

Continued from previous page

social security system. He says France must do more to modify the existing retirement system schemes, reform pensions and cut health care expenditure. He stresses "an important first step" through the tax reforms over the summer which encourage private pension schemes for artisans and independent workers.

"The big problem is to develop a pension scheme for workers," he says. "It's a big problem for French society. I am confident in the months to come that there will be legislation but it would be a bit hurried before the presidential election."

His third challenge - which he stresses is far from unique

to France - is to tackle national training and the education system, which he says are still too centralised. "There is a lot to do."

That leaves an important fourth challenge: to continue efforts to reduce the budget deficit, which has a current target of FF200bn for the end of this year and FF275bn for next year.

In the run-up to next May's presidential elections, he is also keen to reassure the financial markets. He does not believe there is any significant difference between the principal candidates on economic matters. Any divergence from the current approach would, he argues, "be absolutely irresponsible and damage their credibility."

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FRENCH FINANCE AND INVESTMENT 4

The bureaucrats at Bercy, the economics and finance ministry in eastern Paris, have reason to be satisfied with the progress of the French government's ambitious privatisation programme.

Since Banque Nationale de Paris was dispatched to the private sector in the autumn of last year, the plan to sell all or part of 21 public sector groups has advanced smoothly. Rhône-Poulenc, the chemicals group, Elf Aquitaine, the oil company, and Union des Assurances de Paris, the insurer, have followed BNP into private hands, netting the state a cool FF794.4bn in receipts.

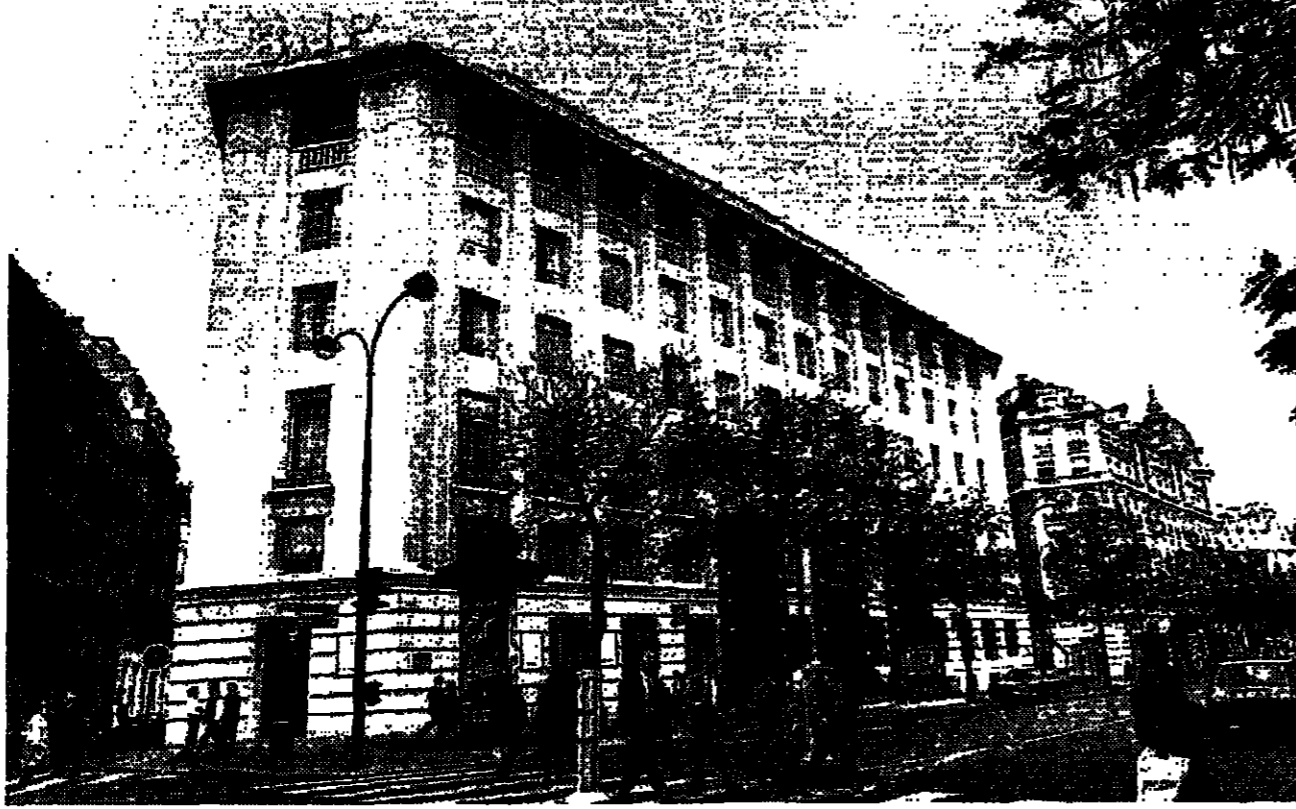
The successful start to the programme has important implications. In addition to boosting the government's coffers - a vital element in its budget deficit reduction strategy - the sales of state companies have also spurred private share ownership. A survey sponsored by the Bank of France and the COB, the stock exchange watchdog, shows that privatisations have pushed the number of private shareholders in France from 4.5m in 1992 to 5.7m this year.

The revenues, and public interest, are set to continue - for the time being at least. The partial privatisation of Renault, one of the state's most attractive assets, is nearing completion. Aimed at the public, the sale of almost 40 per cent of the capital of the motor group is expected further to boost popular share ownership. In so doing, it should bring the government a further FF80bn or so in receipts.

After Renault, however, the process of privatisation is likely to become more delicate, and more complex. For 1995, as for this year, the government has set a target of FF55bn for privatisation receipts. But with many of the more attractive assets already sold, and with the stock market in the doldrums, it faces a challenge in maintaining the momentum of its privatisation drive.

Mr Edmond Alphandery, the economics minister, is taking steps to prepare the next candidates for sale. He has launched the process of selecting adviser banks for the privatisation of Seita, the state tobacco monopoly which manufactures such famous brands as Gitanes and Gauloises.

Two insurance groups, Assurance Générale de France, and Caisse Nationale



The Banque Nationale de Paris on the Boulevard des Italiens

John Ridding looks at the progress of the government's ambitious programme

Privatisation spurs share ownership

Government receipts from privatisation		
Company privatised	Year of privatisation	Amount (FFr bn)
BNP	1993	27.9
Rhône-Poulenc	1993	13.6
Elf	1994	34.9
UAP	1994	18.7
Total		94.4

Source: Financial Times

de Prevoyance, are both primed for sale, although the latter is expected to remain majority controlled by the French state.

The minister has said that he is keen to privatise AGF as soon as possible. But the operation is complicated by the sharp fall in insurance shares this year which has resulted from the decline in bond prices and the consequent impact on the portfolios of insurance groups. AGF, for example, has seen its share price tumble by more than 35 per cent since the beginning of January.

For the French government,

this poses a dilemma. "They want to sell AGF, but cannot be seen to flog off the silverware too cheaply," says one industry observer. The partial privatisation of CNP is similarly affected by the depressed state of the insurance sector.

Such considerations help explain the moves to prepare for a sale of Seita. But in terms of revenues, it is a less lucrative operation. The expected receipts from the sale of the tobacco group, however, which are estimated at about FF6bn, pale beside the FF20bn which could come from selling the government's 65 per cent hold-

ing in AGF and the receipts from the first batch of privatisations. Elf alone brought FF36bn to the state's coffers.

Beyond the immediate candidates, there are also complications. Many of the larger companies left in the state's corporate portfolio are in need of significant restructuring before they can be offered to private investors. Crédit Lyonnais and Air France, for example, continue to incur substantial losses. Usinor Sacilor, Europe's largest steel producer, has burst back into the black after a net deficit of FF75.7bn last year, but must still reduce its debt burden of FF20bn before it can be sold.

An added headache as the government ponders the next steps in its privatisation programme relates to the weakness of the stock market. The decline in insurance shares, although dramatic, comes against a background of depression on the Paris bourse. The CAC 40 index of leading shares has fallen by about 20 per cent this year as interest

The 21 companies on the privatisation list				
Company	Sector	Turnover*	Profit/loss	Percentage of capital held by state†
Aérospatiale	Aerospace	FF50.8bn	net loss FF1.42bn	73.7 per cent
Air France	Airline	FF55.18bn	net loss FF6.48bn	98.3 per cent
Banque Hervet	Bank	n/a	net loss FF1.2bn	73.5 per cent
Banque Nationale de Paris	Bank	n/a	net profit FF1.02bn	100 per cent
Caisse Nationale de Prévoyance (3)	Insurance	FF64.3bn	net profit FF1.25bn	42.5 per cent
Groupe Bull	Computers	FF28.25bn	net loss FF5.07bn	72 per cent
Cie Générale Maritime	Transport	n/a	n/a	100 per cent
Crédit Lyonnais	Bank	n/a	net loss FF6.8bn	52.51 per cent
Pechiney	Aluminium, packaging	FF63.03bn	net loss FF980m	55.7 per cent
Renault	Vehicles	FF169.79bn	net profit FF1.07bn	80 per cent (1)
Rhône-Poulenc	Chemicals	FF80.58bn	net profit FF982m	100 per cent
Assurances Générales de France (2)	Insurance	n/a	net profit FF977m	65.5 per cent
GAN	Insurance	n/a	net profit FF414m	78.4 per cent
Union des Assurances de Paris	Insurance	n/a	net profit FF1.42bn	100 per cent
Seita	Tobacco, cigarettes	FF14.14bn	net profit FF685m	100 per cent
Société Marseillaise de Crédit	Bank	n/a	net loss FF904m	97 per cent
Saatchi	Aerospace engines	FF19.57bn	net profit FF1.1bn	97 per cent
Elf Aquitaine	Oil	FF210bn	net profit FF1.1bn	75.8 per cent
Thomson	Electronics	n/a	n/a	80 per cent
Usinor Sacilor	Steel	FF75.4bn	net loss FF5.8bn	80 per cent

rates have headed upwards. As a consequence, all of the privatisation issues, with the exception of BNP, are trading below their issue price.

"The decline in share prices is likely to dampen investor enthusiasm for new issues," says one Paris stockbroker. "There are many competing

alternatives for their savings which they may find more attractive." One such is a new scheme which allows individuals to buy directly 10-year gov-

ernment bonds. With yields of about 7.5 per cent, they are proving highly popular.

Despite these various challenges, however, the government is optimistic about the future prospects for its privatisation plans. Officials cite the strong demand that the issues have received from individual, institutional and industrial investors and claim that the weakness of the stock market raises the prospect of a strong upswing and hence increased incentives for investors.

They add that the recovery in the French economy, which has revived much more dynamically than forecast and is due to grow by 3.1 per cent next year, should ease the process of restructuring for many of the privatisation candidates. "We will get them in shape for sale," says one official at the industry ministry. "Look at how Renault was transformed from a big loss-maker over recent years."

Such transformations, however, take time. The ability of many of the lame ducks of the public sector to turn themselves into swans, and the course of the French and international financial markets over the next few months, will determine whether the government has enough time to achieve its privatisation objectives.

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Matif dealers trade in such innovative products as repesed futures and (right) a view of the new trading floor, which opened this autumn

Andrew Jack talks to the chairman of the financial futures exchange

The Matif success story

If Matif, the French financial futures exchange, was a quoted company, its shares would have been unlikely to have suffered as much as many on the malaise-ridden national markets over the last few months.

The marché à terme international de France (Matif) began operating in February 1986, the result of a law passed in the previous year as part of a wide-ranging series of liberalisation measures designed to modernise the French capital markets.

During 1993, the last full year for which information is available, it had grown to a point at which more than 72m contracts were exchanged - with trading volumes up more than 30 per cent on the previous 12 months. Net banking income jumped by 7 per cent to FF606m, and total assets stood at FF11.18bn.

But Mr Gérard Pfauwadel, chairman, sees no reason to blush at the apparent embarrassment of riches. "We have to guarantee every trade and we are a clearing house so we need assets like every insurance company to ensure our guarantee is as good as gold," he says.

He also points out that much of the money has been reinvested in a new trading floor opened this autumn, in a new registration system, in developing new markets and products, and in a wide range of other technological and strategic innovations.

However, the profitability of Matif has certainly triggered some frustrations among those who cannot share the spoils. It was created as a unique tripartite initiative, a corporate entity with the shareholders equally split between banks, brokers and insurance companies. Now some of those who did not originally take part are calling for a share of the equity.

There is another potential problem with Matif's heady expansion. Much of the growth has come from demand in other countries. At the end of 1993, non-residents' share of open positions on the market was substantial: 42 per cent on the national contract, and up to 80 per cent for the Ecu long bond, for example.

This partly reflects the organisation's success in its increasingly aggressive international marketing campaign - with recent presentations in countries including the US and UK. But it may also present future challenges, and reflects the relative weakness of French domestic markets to use financial derivatives to a greater extent.

Sit down to chat with Mr Pfauwadel and it is difficult to get him to stop. "I can talk for 24 hours," he says. "I love this job." It is one he is well suited for. In effect, he has been forced to swallow his own medicine, as the deputy under-secretary at the French treasury who drafted the laws in 1985 that still dictate the framework within which Matif operates.

Mr Pfauwadel says the organisation was developed "in French style", largely through the work of civil servants, who were not suspicious of the market, but in fact extremely keen to develop an efficient, workable futures exchange to modernise the country's capital markets and compete with

those in other countries.

The result is that he sees no need for great changes to the law. Nor does he see the need for enormous restructuring of the services currently provided. After rapid growth in its first eight years, Mr Pfauwadel looks more on the next few as being primarily time for consolidation of existing strategies.

Matif has developed a series of new financial products, and now offers long, medium and short-term interest rate contracts; stock index futures on the Paris bourse's CAC 40; and currency options; as well as commodity contracts in white sugar and potatoes.

Now Mr Pfauwadel believes that most products for which there is currently demand are catered for. "It is becoming more difficult to innovate," he says. However, he argues that there may be scope still in commodities - notably agricultural products - in a reflection of France's strength in the sector.

So, at the end of October Matif launched a repesed futures market, two years after the European price of the product was wrested from the control of civil servants in Brussels. As other commodities such as wheat are liberalised, Mr Pfauwadel believes there may be scope to provide futures in these crops too.

Not all have been so successful, however. Matif has had to abandon several of its financial contracts, and has also had to close its commodity futures in coffee and coconuts, for example. However, Mr Pfauwadel says he is in no hurry to look for quick returns on repesed, and stresses that providing new services is far more important than generating a profit in the short to medium term.

An arguably more significant set of new developments is in expanding the range of products available by connections to other exchanges. Traditionally, Matif has been an "open outcry" market, with deals done by traders on a physical floor. However, Mr Pfauwadel is far from dogmatic about this approach continuing to dominate in the future.

In 1993, Matif members gained access to Globex, the 24-hour screen-based electronic trading system developed by Reuters and the Chicago Mercantile Exchange, and which now accounts for an estimated 80 per cent of its total volumes. At least equally important, at the end of the same year, it signed a co-operation agreement with the Deutsche Terminbörse (DTB) in Frankfurt, its opposite number. This allows members to trade electronically in two German products. Reciprocally, two French products will be available within the next few months.

If all goes well, new products will be developed in both directions, and a clearing system between the two exchanges put in place by the end of next year. Mr Pfauwadel says he is already in discussions with his equivalents in other European countries to do the same: notably the Dutch, Spaniards and Swiss.

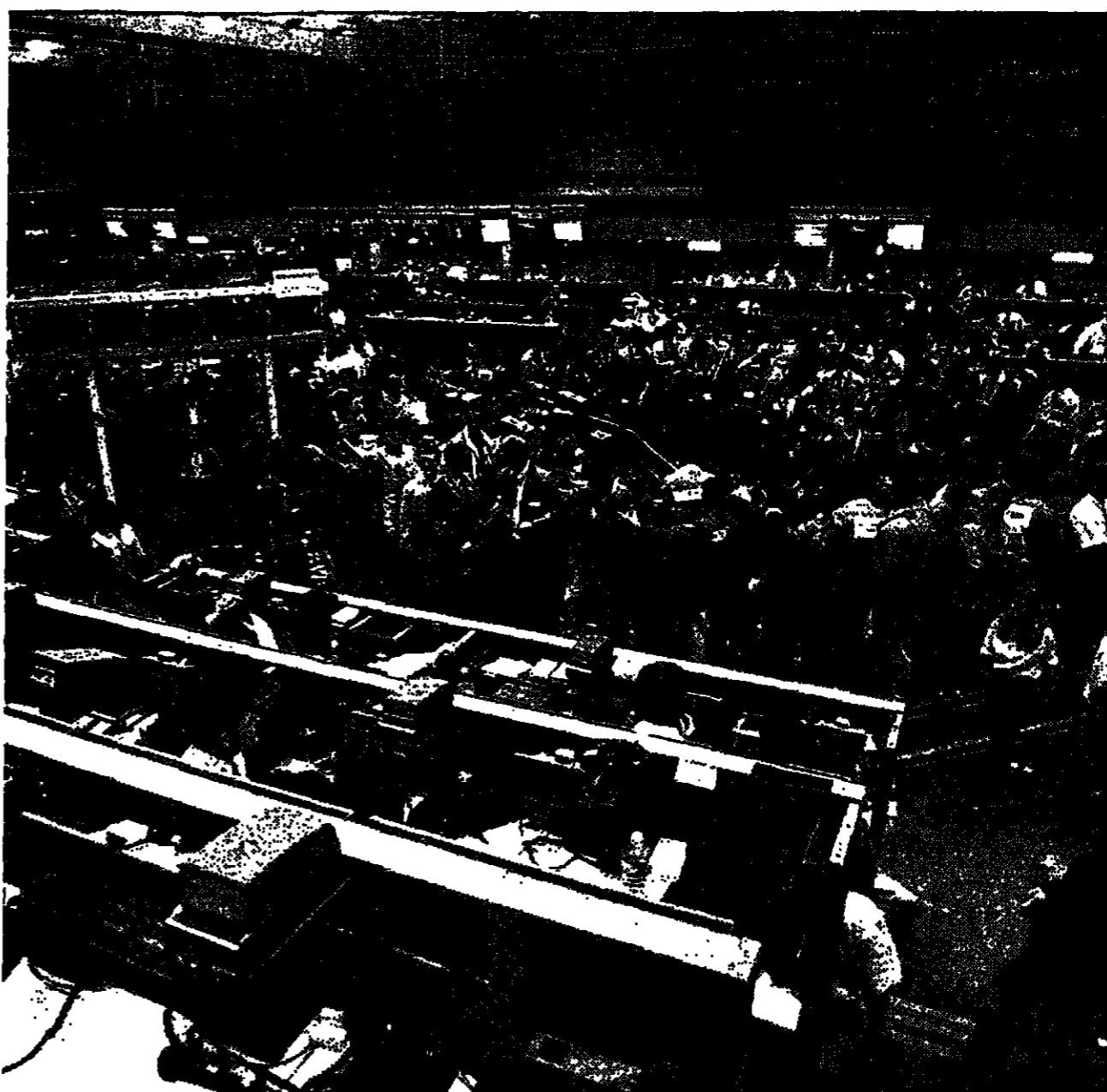
One country is strikingly absent from the list: the UK, represented by its London International Financial Futures Exchange (Liffe). Mr Pfauwadel says he approached the market before going to the Germans, but officials refused

to take part.

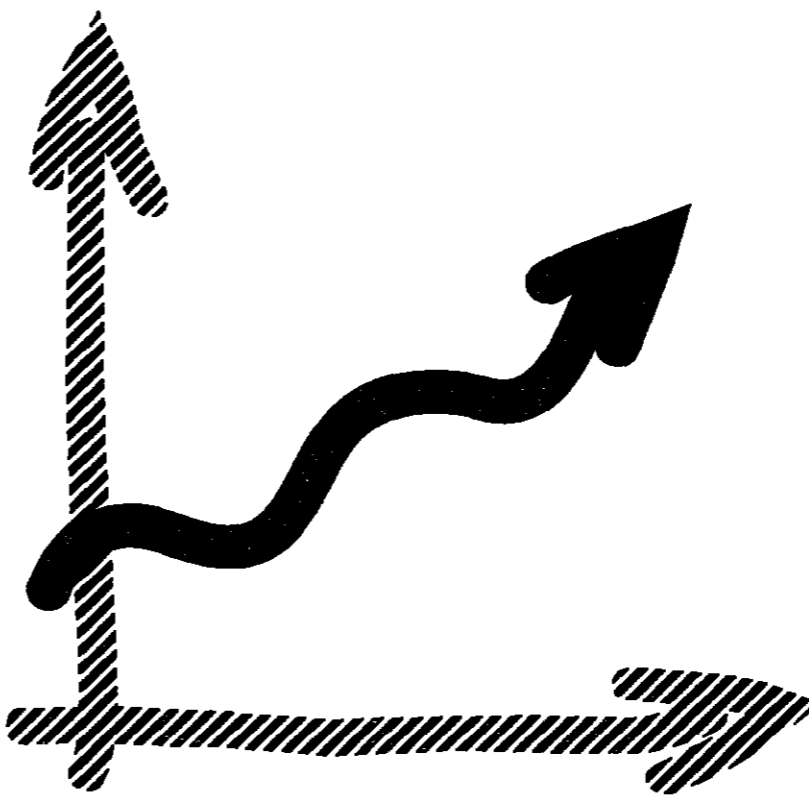
"The British have another strategy," he says. "They want an open outcry system, with a big market in the City to quote all European products. It is in conflict with our strategy to develop a domestic niche and link to other exchanges by a

network."

It may be that these two different and opposing approaches which, more than anything, set the tone for the competition for the markets for futures and options across Europe over the next few years.



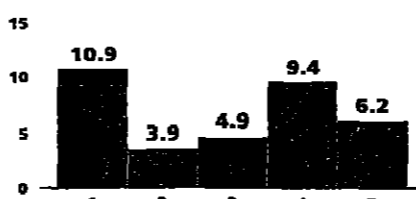
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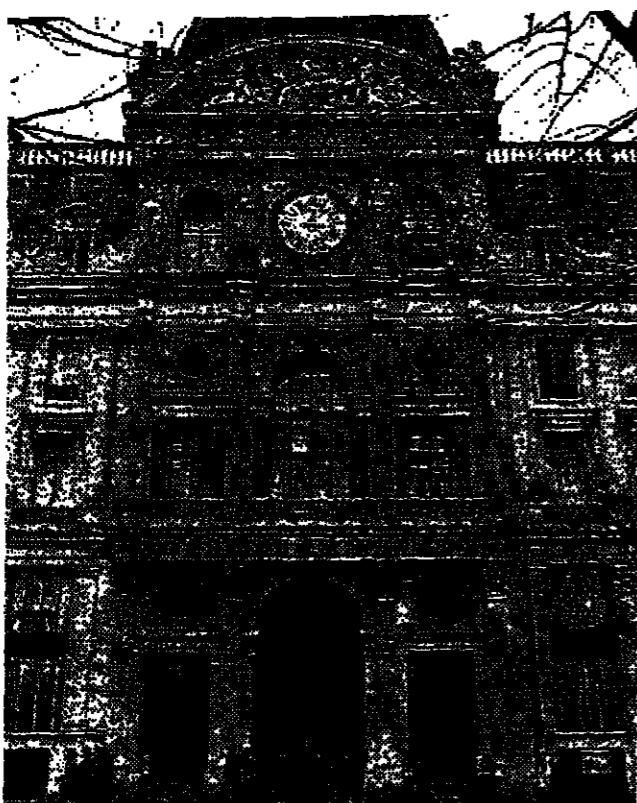


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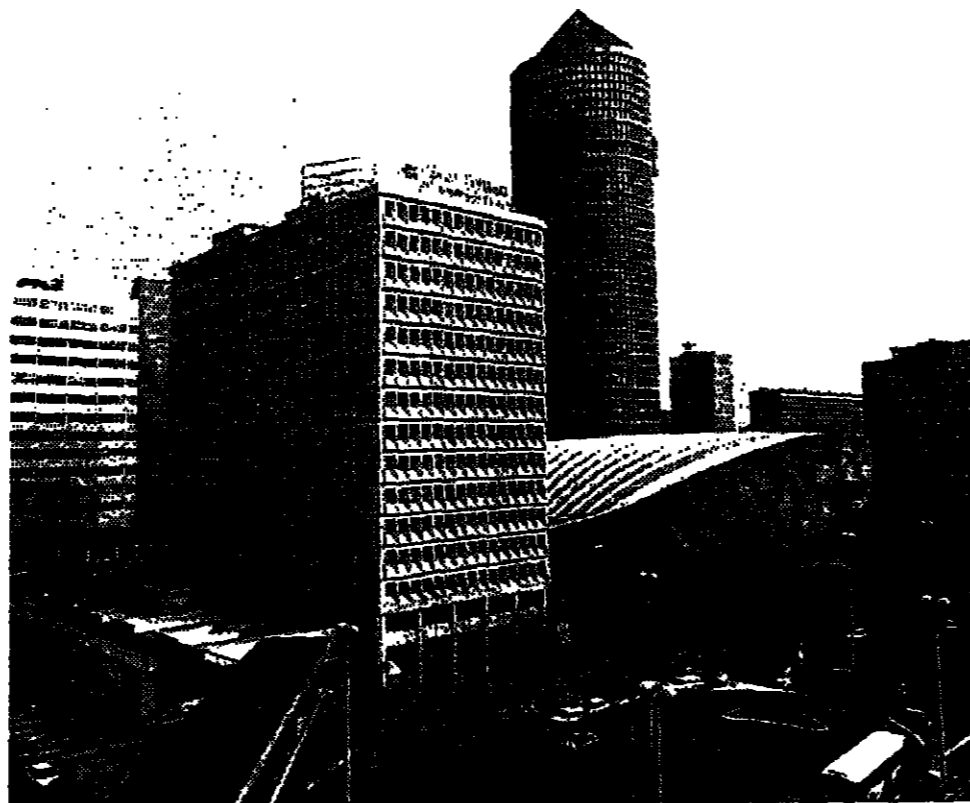
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FRENCH FINANCE AND INVESTMENT 6



The Crédit Lyonnais bank in Paris and (right) a view of the Lyon commercial district with the offices of Banque Populaire (left) and Crédit Lyonnais (right)



Ashley Armstrong Tony Anderson



Jean Peyrelevade and his predecessor at Crédit Lyonnais, Jean-Yves Haberer

Andrew Jack on the chequered fortunes of the state-owned Crédit Lyonnais

The importance of saying 'maybe'

A decade ago, Crédit Lyonnais, the state-owned bank, launched a publicity slogan that has haunted it ever since: "The power to say yes." In the past few months, its directors, customers and shareholders have all wished that, instead, it had exercised its power to say "no" rather more often.

A string of activities that look extremely embarrassing in hindsight continues to hover over its future prosperity: loans to MGM, the film company, an extraordinarily unprofitable property portfolio, and financial support to Mr Bernard Tapie, the controversial French businessman and politician, to name just a few.

While the French government, the controlling shareholder in the bank, claims that it spotted troubles starting to emerge in 1992, action took rather longer. Mr Jean-Yves Haberer was removed as head of the bank last November – although initially to be given another important banking job. In his place, the state appointed Mr Jean Peyrelevade, formerly head of UAF,

the French insurance group.

However, the financial problems at Crédit Lyonnais were brought into sharp focus only in March this year when the bank declared record losses of FF6.9bn, and the state underwrote FF4.8bn worth of its property portfolio. This was followed by a FF4.9bn capital increase announced over the summer with money from the state and other – somewhat

reluctant – shareholders.

In July, a parliamentary inquiry criticised the bank and its directors, attacking its property investments but also – more controversially – the extent to which the state itself had pushed the bank into propping up state-owned industries. But the bad news did not end there. At the end of September, Crédit Lyonnais reported further losses for the half-year of

FF4.5bn. It announced further provisions of FF10.1bn, and is widely expected to require perhaps the same amount again before dispensing with the legacy of the past.

Meanwhile, Mr Peyrelevade has been playing a delicate game against the state. While he pleaded for additional financial support to prevent the risk of the bank falling below minimum solvency levels, the government held back from publicly providing the necessary reassurance at the time of a high budget deficit.

The result has been a diplomatic compromise. Mr Peyrelevade simply states in the passive voice that the problems of the past will no longer be an issue after the start of next year. The government emphasises that it will support depositors but everything must happen in the right order, meaning a full evaluation of the provisions that are really necessary before there is any offer of unconditional extra support.

Observers have questioned whether Crédit Lyonnais has

yet gone far enough in its strategy for reform. It is proceeding with an asset disposal programme agreed by the government at the time of the recapitalisation, but the signs are that it is already falling behind in its timetable and in the value of realisations.

It is also resisting attempts to sell any of its core activities, notably its operations in Europe including perhaps the most comprehensive retail branch network across the continent: something which it is convinced is the secret of success for the future. Others are less convinced.

The events of the last few months have certainly had a powerfully detrimental effect on the bank's *certificats d'investissement*, its only publicly traded shares, although a number of analysts now believe the worst is over. But Mr Peyrelevade admits that the negative publicity may have also reduced the number of new customers attracted over the last few months.

In an unprecedented effort to

boost morale for clients and staff alike, Crédit Lyonnais launched a FF18bn advertising campaign in some 70 newspapers early last month. The centrepiece was an "open doors evening" at local branches across France to pose questions to the staff about its losses and financial stability.

An estimated 40,000 people turned up between 5pm and 9pm to quiz several thousand volunteer staff in 1,900 of Crédit Lyonnais' 2,100 branches around the country. Mr Peyrelevade himself went to a branch in his home town of Marseille, with many other senior and middle-ranking headquarters staff getting out to different offices.

An internal briefing document circulated to the bank's staff in the past few days gave them detailed responses to a number of Crédit Lyonnais' critics. It told them to be natural, professional and positive, and advised them in the event of "an incident" to take more emotional clients to a more isolated place to discuss and

maintain the bank's position "but always with a smile".

Much of the French press was sceptical about the success of this event. Certainly, many customers in the bank's branches in Paris seemed more concerned about withdrawing cash from wall dispensers and struggling home in the rush hour rather than asking questions – although one manager suggested the problem was the competition from three televised football matches that evening.

But, speaking on French radio, Mr Peyrelevade said that the critical reaction was typically Parisian, and that in many other parts of the country the evening was well received. An opinion poll conducted by Crédit Lyonnais with 500 of the branches that participated suggested three-quarters came to ask questions, just over half to express support and 19 per cent to complain.

Nevertheless, in the view of the staff afterwards, about 30 per cent of customers left still bearing concerns about the bank's financial difficulties or scandals. Such opinions will continue to haunt Crédit Lyonnais, and remind its managers – if they get the chance – of the importance of continuing to say "maybe" rather more often.

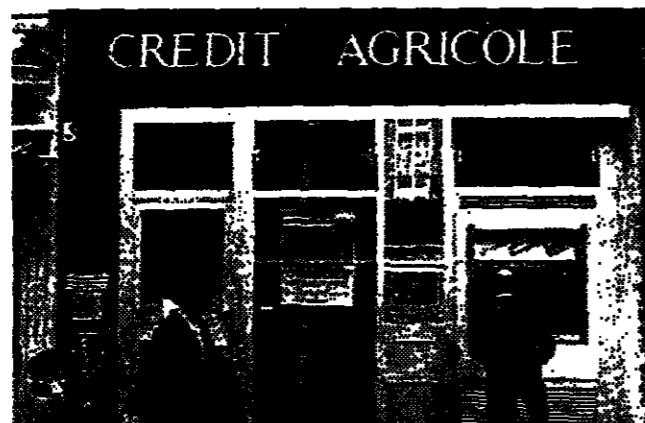
Profile: CREDIT AGRICOLE

For more than just farmers

Twenty minutes into the conversation, Mr Lucien Douroux, the chairman of Crédit Agricole, heaves a sigh of relief as the questioning shifts away from the bank's agricultural loans. "At last," he says, raising his hands in a mix of exasperation and delight.

Past history and the legacy implied by its name have helped fuel two misconceptions about Crédit Agricole, which celebrated its centenary in September: that it is still subsidised by the French government, and predominantly involved in agriculture.

As a result, its officials believe it has often been misunderstood – particularly by Anglo-Saxon journalists, but more importantly by potential clients, which some insiders concede may have periodically



A branch of the Crédit Agricole in Paris

prejudiced its chances of gaining business outside its traditional sphere of operations.

Certainly Crédit Agricole stands apart from its competitors in a number of ways – not least the modern headquarters hidden behind the Montparnasse station south of the Seine, in stark contrast to the ornate offices of most of France's other large banks located more centrally around Place de l'Opéra.

At a time when most French banks are laying emphasis on cutting back on the number of branches, Crédit Agricole remains proud of its extensive network: with 8,400 outlets serving 15m personal customers, it is the largest numerically in the country.

Like rural English churches, it has some branches which open only on certain days of

the week with staff rotating between a succession of centres. It also operates some 10,000 "green points" or banking centres in butchers' and bakers' shops in small villages.

Modern art celebrating the furrow in a farmer's field, photos of the countryside liberally illustrating its annual report, and the persistent refusal to change its name – with all its valuable long-standing associations – do nothing to help change its image and reflect its broader portfolio of activities today.

There is no doubt that Crédit Agricole remains pre-eminent in rural areas and in loans to farmers. Its literature continues to talk about its link to the soil, its roots and its regional strength. It continues to hold about 80 per cent of the market share of farmers' business against its competitors.

"That is a stable percentage, one we intend to retain," says Mr Douroux. "It's an activity we know well and where we have a lot of expertise. It is not an easy sector to understand. We have advantages."

Nevertheless, Mr Douroux says that the agricultural sector is becoming increasingly uncertain in the light of reforms to the common agricultural policy and the changing policy of Gatt. Equally, the proportion of the French population that is engaged in farming – and their contribution to the economy – is in continuing decline.

At the same time, Crédit Agricole has come under new competitive pressures. Financial deregulation in the 1980s altered the environment. The bank was privatised in 1983 – converted into an unquoted joint stock company with 10 per cent of the shares held by employees and the remainder by the network of regional

banks that make up the co-operative structure.

"We have no state support and no privileges," says Mr Douroux. "We are just one bank among others. In the past there was a monopoly and it was right, just as using oil-lamps were right at one stage. But it's over."

It still dominates in providing state-subsidised low interest loans to agriculture – a legacy of the 19th century. But it must now bid in the annual auction against other banks which want the business.

On the other hand, it can now function more freely. In the past, tight government controls on credit in general, and on the operation of the bank in particular, restricted its expansion into other areas. It was allowed to provide services to small and medium-sized companies only in 1961, and to larger companies in 1962. Just 5 per cent of its customers are farmers, who represent 15 per cent of outstanding loans. Two-fifths are domestic loans – mainly for mortgages. Small business and local authorities are also important parts of the portfolio.

As to the future, Mr Douroux highlights three areas. The first is to improve productivity by reducing costs. The regional banks controlling Crédit Agricole are being enlarged and regrouped. Where there were 94 in 1986-87, there are 68 now, and it is estimated that there will be just 35-40 by the turn of the century. Mr Douroux talks of a "progressive reduction" of costs each year.

The second target, he says, is "to reinforce our basic activities: loans to households, agriculture, local authorities, and small and medium-sized businesses."

Finally, he aims to develop some new markets, primarily in existing areas of strength in other countries where domestic clients are expanding, or in specialist niches such as private banking, capital markets and treasury management. He also wants to extend partnership through buying stakes in and working more closely with other co-operative banks in Europe "to provide a full array of services," using local stakes.

But he stresses that many banks have made too many mistakes by expanding abroad. "Our main strength is domestic," he says. "We will continue to develop our international network, but not too fast."

Andrew Jack

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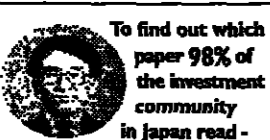
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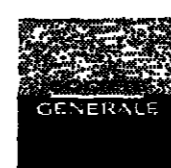
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مكتبة الأصيل

GREECE

Monday November 14 1994

Joint ventures with eastern European shippers offer new opportunities. Page 2

Tourism earnings have failed to keep pace with increased arrivals. Page 4

European prosperity proves elusive

Disputes with its neighbours, political uncertainty and continuing recession are pushing Greece further from convergence with the EU, says Kerin Hope

These are difficult times for Greece. Its superficial gloss of European prosperity can no longer disguise the structural problems that are blocking prospects for long-term growth. The political parties, obsessed with personal rivalries and keeping alive the pervasive patronage system, show little awareness of the country's economic predicament. And disputes with its neighbours in the Balkans have further distanced the country from its European Union partners.

The mood of frustration is reinforced by the refusal of Andreas Papandreu, the 76-year-old prime minister, to retire or appoint a deputy premier. Mr Papandreu's weakening health, which allows him to work for only a few hours a day, feeds media speculation over the succession struggle in the governing Panhellenic Socialist Movement, Pasok.

But strict self-censorship by Greek newspapers and television suppresses any debate about when or even whether the ailing Mr Papandreu should make way for a younger leader. The waiting period will go on at least until parliament votes for a new president, a largely ceremonial job due to be relinquished next spring by another frail elderly statesman, Constantine Karamanlis. Mr Papandreu is the obvious candidate to take over, but Pasok controls only 170 of the 350 votes needed and he is not prepared to risk a humiliating defeat that would trigger a general election.

A search has begun for a compromise presidential candidate who would be supported

by some conservative and left-wing deputies in the 300-member house. Most opposition deputies are anxious to avoid an early poll, in spite of assertions by Miltiades Evert, who took over as leader of the conservative New Democracy party after its election defeat last year, that he could capture power.

The conservatives are looking less ragged than before, as Mr Evert has enticed back a group of deputies who defected last year to the right-wing splinter group Political Spring, but he still cannot persuade the party's feuding factions to rally behind him.

The results of last month's local government elections underlined the fact that support for Pasok is still strong, particularly in the countryside where the effects of recession have been less harsh.

Although conservative candidates were elected as mayors of Athens and Thessaloniki, the cities where unemployment is highest, the socialists' popularity has survived their decision to abandon the generous wage and welfare spending of their first term in the 1980s in favour of tighter policies.

The election in Athens of Dimitris Avramopoulos, an expatriate with virtually no political experience, demonstrated, however, that voters are rejecting traditional party and ideological divisions. Significant, too, was the high nationwide abstention rate, indicating rising dissatisfaction with the politicians.

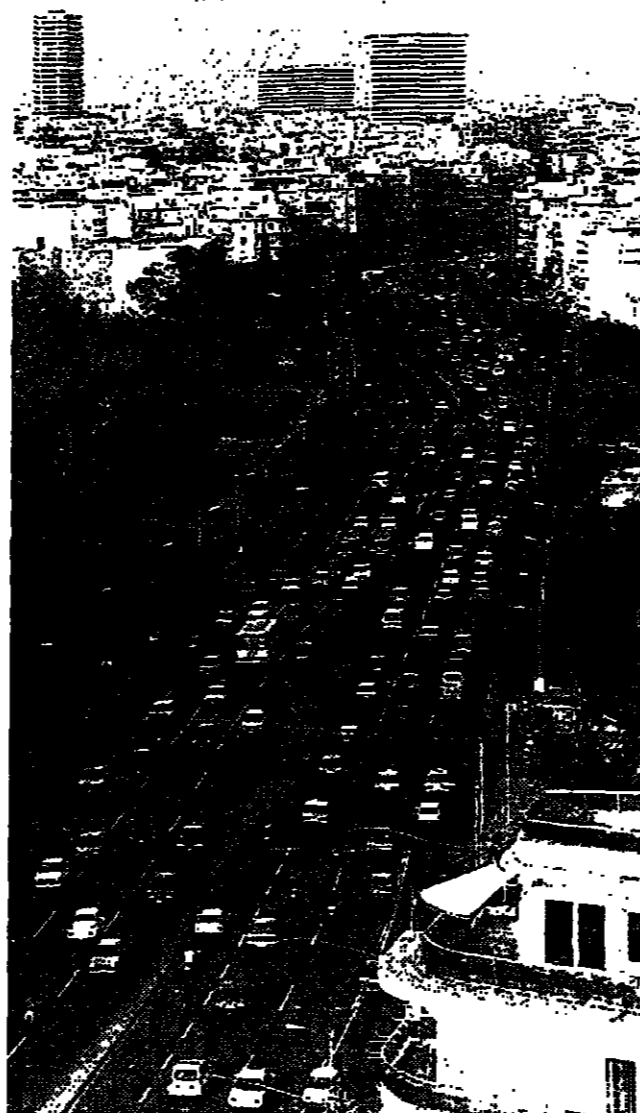
After three decades in which many Greeks became city residents for the first time, while attaining a standard of living

comparable to that elsewhere in southern Europe, attitudes are undergoing a radical change. Social and environmental problems, ranging from drug use to atmospheric pollution and the dumping of toxic waste, assume a much higher profile.

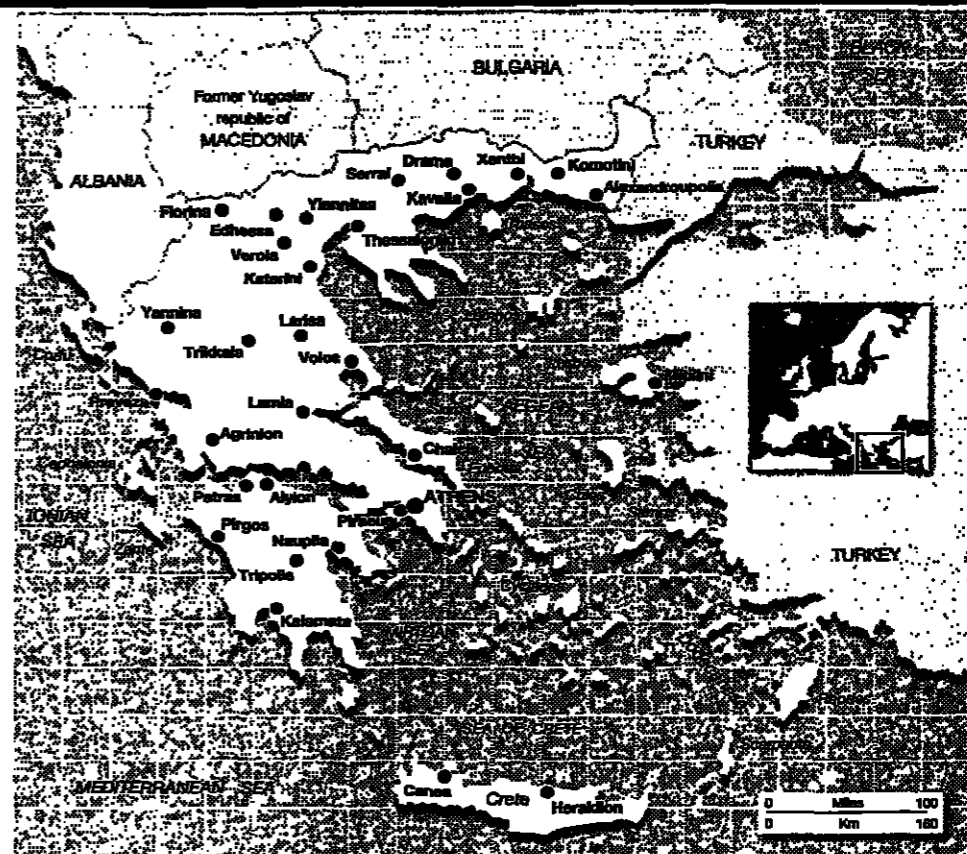
The urge to modernise cuts across political boundaries. The pro-European technocrats in charge of economic policy under the socialists and the liberal faction in New Democracy have more in common with each other than with old-style politicians in their own parties. But the present lack of leadership is undermining the technocrats' chances of pushing through structural reforms needed to help the economy catch up with the rest of the EU.

The government's decision last week to postpone the partial flotation of OTE, the state telecommunications monopoly, until next year is just one example of how special interest groups, in this case the telecoms company's powerful union, can obstruct the reform process. Political opposition to the flotation, together with the socialists' commitment to continued state management, had a negative impact on overseas investors' interest in the offering.

It is not just the possibility of losing some Dr200bn (£790m) in revenues that worries the economy ministry. Failure to float the telecoms company would raise doubts about the partial privatisations being planned and put at risk Greece's convergence programme for participating in EU economic and monetary union. Moreover, with the state still controlling some 60



Athens has one of the country's highest rates of unemployment. Paul Foster



awarded - a sea-bed tunnel linking two ports in western Greece - while disputes with the European Commission over contract terms are blocking the start of construction of a new Athens airport, port improvements and several hundred kilometres of motorways.

Without strong political backing, the finance ministry's new campaign to curb corruption at tax offices, broaden the tax base and cut tax evasion could quickly crumble.

Plans for including credit card payments and mortgage loans, as well as obvious items such as yachts and luxury cars, into the new list of "wealth indicators" that are being used to calculate tax liability have been met with fierce opposition.

Whatever happens, next year marks a turning point. Economy ministry planners know that unless progress is made towards convergence, by 1996, when the EU reviews its future, Greece's status will

decline further with the arrival of new entrants from eastern Europe. But with EU transfers to Greece to amount to almost 5 per cent of gross domestic product in the next five years, few Greek politicians seem aware that the years of generous hand-outs from Brussels may soon be over.

It does not help, either, that Greece is quarrelling with two out of three of its Balkan neighbours. Suspicion runs so deep in the region that even if disputes with Albania and Macedonia can be patched up soon, trade and investment prospects are likely to suffer in the future.

The eight-month trade embargo against Macedonia has frozen business contacts and will also affect earnings this year at Greece's northern port of Thessaloniki, formerly the main outlet for Macedonian exports.

In Albania where Greek investment was increasing, smaller projects have been fro-

zen and there are fears that Italian companies may now be preferred over Greek companies in competitive bids for infrastructure projects.

Greek officials realise that readiness to implicate the EU in these bilateral disputes, by vetoing European aid to both countries, damages their own relationship with Brussels.

Yet in spite of a perceptible decline in nationalist feeling, which triggered the rows over Macedonia's name and the status of the ethnic Greek minority in southern Albania, Greek attitudes on minority rights at home still reflect outdated policies.

Accusations persist of discrimination against Greece's Muslim minority in Thrace, while the efforts of Slav-speakers in Greece's northern provinces - who would be called the Macedonian minority if they lived anywhere but Greece - to preserve their language and cultural traditions still face political obstacles.

HOW A SINGLE TAKEOVER RESTRUCTURES AN INDUSTRY

Changing the Frozen Foods Sector in Greece

Few sectors in Greece exhibit the dynamism and growth shown by the food industry. In an economy saddled with a six-year old recessionary cycle, the food industry has been a leader in terms of investment, financial results, market penetration and rates of growth. And these achievements have come while prices have increased at rates below inflation. The food sector ranks third (after beverages and paper) in terms of production, first in terms of investments carried out and has an average performance with respect to prices increases: while manufacturing prices rose by an average of 13.5% for all sectors in 1993, food prices increased by just 16%.

The main beneficiary of this performance has been the consumer: quality has improved significantly, the range of products has widened impressively and technological innovation has been the rule of game in the period from 1985 till today.

It is, thus, no surprise that companies like DELTA DAIRY INDUSTRIES have managed to meet successfully head-on competition from multinationals, like Unilever which entered the Greek ice cream market with the Algida brand and has since failed to capture more than 20% of the market, though in all other European countries it has a minimum of 30% market share. Nor is it surprising that Greek food companies, like DELTA and 3E, have managed a very successful incursion into the Balkan market, and especially in Bulgaria and Romania, where their presence is now felt in a definite manner.

Because of special factors, however, the frozen foods sector in Greece has remained relatively small and has shown rather medium rates of growth. A two-person working family is still relatively rare in the country. The family continues to operate as the main social unit and the extended family takes care of its members, even at times of hardship. The temperate climate favours the production and consumption of fresh products. And the pace of everyday life is still not hectic enough to justify the switch from regular cooking to ready-made frozen meals.



Under these circumstances, companies have tried to improve productivity and to appeal to the consumer through a better quality product. Thus, the frozen foods sector is characterized, among others, by its high degree of capitalization in both buildings and equipment and in working capital. Financial results have not been encouraging though: the return on capital in the two largest companies, which together account for over 80% of the market, has been consistently below the

average for industry as a whole, i.e. below 11% for the return on own capital which is the average for manufacturing as well as below 15.5% which is the average for the food sector.

The frozen food sector, however, is about to undergo a major transformation. DELTA DAIRY Industries has taken over the country's largest frozen foods firm BARBA STATHIS S.A., which literally translates into UNCLE STATHIS. DELTA has already a commanding presence in the market, where its affiliate

FROZA S.A. held a respectable 25% of the high end of the market. Following several years of a lacklustre performance on account of the factors mentioned above, BARBA STATHIS was ready to call it quits and ask for help.

For DELTA, the friendly takeover provided a challenge. The combined concern of BARBA STATHIS and FROZA now hold a dominant position in a market that has and shows the potential for rapid growth. The pace

of life is changing: continuous working hours, two-parents working families and longer distances for commuting, all point the way for a change in eating and cooking habits as well. Further, consumers are realizing that frozen foods, especially those of superior quality, are in effect fresh foods.

DELTA's aim in taking over BARBA STATHIS is to obtain a series of external and internal economies which will allow it to operate at high levels of productivity and quality without significant effects on prices charged to the final consumer. By turning a relatively poor performer like BARBA STATHIS into a highly profitable business, DELTA aims to exploit the potential for high value-added products that is inherent in the business of frozen foods.

The company's main business plan is simple. Namely, it aims to proceed along two main axes:

- First, it will rationalize production, which means lower capital concentration, higher efficiency and lower production costs. This, in turn, will allow the company to become more competitive and meet the challenge of imported brands.
- Secondly, it will coordinate distribution channels, thus, further lowering costs and creating better and closer ties with customers.

It should be noted, however, that FROZA and BARBA STATHIS will continue to exist as separate and competing brands. The former will continue to appeal to the higher end of the market while the latter will appeal to the mass market.

The end result of this venture will be to increase the size of the market and to offer the consumer a wider range of high quality products for all needs and desires. At the same time, the Greek frozen food industry will be close to acquiring that necessary critical mass which will enable it to compete successfully with imported foods, while also providing it with the opportunity to expand in the Balkan area.

GREECE 2

Meeting targets on reducing inflation and the budget deficit is vital, says Kerin Hope

Walking the economic tightrope

Greece's budget planners are well aware that 1995 will be a decisive year for the economy. If targets on reducing inflation and the budget deficit can be met, Greece still has an outside chance of joining its European partners in monetary union at the end of the 1990s.

Otherwise, as a foreign economist put it, the downward spiral of deficit and debt will "consign Greece permanently to Europe's economic margins".

Greece won grudging approval in September from its EU partners for a revised convergence plan, aimed at meeting the Maastricht requirements on inflation and the deficit by the end of 1998 and substantially reducing the public debt, now at more than 110 per cent of gross domestic product.

With this year's budget deficit now likely to be held just below the target of 13.2 per cent of GDP, the socialist government's commitment to reducing fiscal imbalances is starting to look more convincing.

The government is also confident that

inflation can be held at about 11 per cent this year, down from 13.7 per cent in 1993. But that is outside this year's single-digit target and still more than three times the EU average. "There will be no revenue shortfall this year, which gives us something positive to build on," says Yannis Stournaras, a senior government economic adviser.

The finance ministry's success in boosting tax revenues after a disastrous start to the year, together with cuts in the public investment budget because of delays in launching EU-funded projects, is expected to wipe out a Dr200bn revenue shortfall forecast earlier.

But next year's budget is causing headaches at the finance ministry, mainly

because the government wants to avoid the political cost of introducing new taxes in what may be an election year.

The convergence plan calls for cutting the budget deficit to 10.7 per cent of GDP and annual inflation to 7.8 per cent. However, Yannis Papanastasiou, the economy minister, will have to put together a new fiscal package if it appears Greece will not meet these targets.

Income from one-off privatisations and asset sales cannot be assigned to help cover a revenue shortfall under current EU rules, but must be used to offset debt. For the moment, revenue increases depend on reinforcing the campaign against tax evasion, with the help of a new financial police force, empowered to arrest sus-

pected tax evaders and seize their books. Corruption in tax offices, together with protracted legal disputes over tax settlement, is blamed for past failures to improve revenue collection.

Much of this year's boost in revenues came from introducing an automatic settlement procedure to resolve 7.5m outstanding disputes involving Dr1.300bn in tax arrears. The system is now being extended, with self-employed professionals being automatically assessed for unpaid taxes over the past five years.

The resilience of the underground economy, estimated at more than 30 per cent of GDP, is also due to the removal of customs

controls under single market rules. "Smuggling of fuel and cigarettes is reaching epidemic proportions. That is one area where the financial police should prove effective," says a finance ministry official.

However, the government has no plans to reduce outlays through public sector reform. It gave a generous capital injection to a loss-making state development bank, wrote down substantial amounts of debt owed by farm co-operatives and continues to subsidise debt-ridden defence concerns.

Government ministries and state enterprises this year ignored guidelines for hiring one employee to replace three who took retirement. As a result, the public sector has added more than 30,000 jobs. This will place considerable strain on

the finance ministry's efforts to cap government spending at 1993 levels next year, despite restricting public sector wage increases to a nominal 5 per cent.

Still, the effort to impose fiscal discipline, as well as the effects of recession on consumer demand, is helping the external balance. Imports rose by only 3.5 per cent in the first half of 1994, while a steady rise in EU transfers kept the current account deficit at \$1.1bn.

Greece has little chance of being able to climb out of recession next year. Growth in 1995 is set to rise marginally to 1.2 per cent, based on the launch of infrastructure projects financed by the EU's new structural aid package for poor member-states. But there are hints that recovery may be on the way. Private investment is projected to grow by about 1.5 per cent next year, despite interest rates on working capital above 25 per cent. Greece's industrial sector, which accounts for only 17 per cent of GDP, is picking up, with output forecast to rise by this year by almost 2 per cent after four years of decline.

The privatisation programme has suffered a setback, says Kerin Hope

Telecoms flotation is delayed

The sight of Yannis Papanastasiou, Greece's economy minister, rounding up deputies in the corridors of parliament before a crucial vote on the flotation of the state telecoms company, illustrates the importance the governing socialist now places on partial privatisation.

The law opening the way for 25 per cent of OTE, the telecoms monopoly, to be sold on the Athens stock exchange was finally approved last Monday. But two days later, the government decided to postpone the flotation, set for early December.

Advisers to the issue warned early last week that under present conditions the government's target of raising more than Dr330bn from the flotation would not be met. The offering is now expected in February. Mr Papanastasiou hopes for a better price then, with OTE's full-year results available, a new board of directors in place and a less charged political atmosphere.

The economy ministry forecasts revenues of Dr400bn from privatisation in the next three years. Studies are under way to identify state enterprises that could be listed on the bourse, offered to private investors, or restructured with a view to selling off subsidiaries.

Although it took only a few months in power for the Panhellenic Socialist Movement to reverse its opposition to unbundling the state, the OTE delay indicates that the party's radical faction still has reservations. However, a shift in public opinion in favour of privatisation reflects frustration with poor services offered by the state-owned corporations that control an estimated 60 per cent of the economy.

The telecommunications, airline, electricity, petroleum and shipbuilding indus-

tries are dominated by the state, while more than 60 per cent of the banking market is held by the two biggest state banks. Management is deeply politicised, with senior executives' jobs being handed out by the governing party. The patronage system extends well beyond the boardroom, with the result that state corporations are all heavily overstaffed.

The disastrous condition of public finances makes flotations of state enterprises an appealing method of raising funds for new investment. The government hoped to reassure Pasok's doubters by offering only minority stakes in public sector corporations and allowing the state to retain management control.

The OTE public offering remains pivotal to the economy ministry's privatisation plans. Despite last week's problems, Mr Papanastasiou has benefited from the conservatives' failed attempt to sell a 49 per cent stake in the company last year. He had little difficulty in recalling CS First Boston and J Henry Schroder Wagg, the international investment banks chosen by the conservatives to handle the OTE deal, since their fees had not been paid.

OTE is one of only a few profitable Greek state enterprises, with pre-tax profits last year of Dr1.5bn on turnover of Dr390bn. First-half results this year, published for the first time, showed pre-tax profits of Dr77.8bn on turnover of Dr210.2bn.

Prof Christos Kazantzis, a financial adviser on the OTE sale, dismisses investor concerns over the quality of state management. He says: "More important is the tremendous potential for growth, considering that income per line in Greece is less than half the European Union aver-

age." Most Greek commercial banks were invited to share in underwriting the domestic tranche of 7 per cent, to ensure wide distribution of the issue. The new law also aims to reassure investors by providing for share price support by the underwriting banks for several months after the flotation.

Regardless of when the OTE sale goes through, DEP, the state-controlled oil refining and petroleum products group wants to come to market next year. Both DEP, a holding company, and the two state refineries it owns are to be floated, along with an oil trading subsidiary.

DEP is handing over Dr50bn to the government this year ahead of its flotation. With consolidated profits for 1994 projected at Dr36bn on sales of Dr642bn, the group intends to expand ahead of the flotation.

DEP's two oil refineries control 60 per cent of the local market, while its chain of petrol stations has a 20 per cent market share.

Manolis Daskalakis, DEP's managing director, says: "There will be a series of listings starting late in 1995 but we won't be disposing of more than 25 per cent of any of our companies."

DEP plans to use funds from the flotation to finance a \$500m five-year investment plan, which includes expanding into other markets in the southern Balkans.

However, the next stage of privatisation will be more difficult. Other companies on the list such as the Public Power Corporation, the power utility, have moved into loss because of restrictions on tariff increases and are heavily burdened with accumulated debt.

Louise Briggs on Greek joint ventures with eastern European shippers

Alliance a risky business

The world's largest tug, now working out of Piraeus, recently hoisted the Russian flag to mark the end of an 18-month dispute with Tsavliris, the Greek shipping group that specialises in salvage and towing.

The quarrel over the Tsavliris Giant - now the Fotiokyriov - says much about the risks faced by Greek shipowners in eastern Europe and the former Soviet Union.

Tsavliris chartered the tug and its sister vessel, which had both belonged to the Russian navy, from a Maltese company. But Russian authorities later claimed the tugs were illegally registered in Malta and demanded them back.

Now they are being operated by Tsavliris-Russ, a Cyprus-based joint venture between the Greek group and the Russian navy, managed by Tsavliris.

Several Greek shipowners have formed joint ventures with shipping concerns in Romania and the former Soviet Union, or are managing ships chartered from them on a bareboat basis.

Shipyards in eastern Europe have more than 60 ships under construction, on order or with options pending for Greek owners. Ex-Soviet seamen are also in demand among Greek operators. "Ex-Soviet crews had 12 years' training, so they're more skilled than most seamen. The disadvantage is that they don't have a lot of initiative," says one analyst.

Greek shipowners' interest in Romania sharpened in 1990 after the collapse of communism, as much of the country's large commercial fleet had been laid up under the Ceausescu regime. However, several Greek ventures in Romania have run into trouble.

Forum Maritime's controversial attempt last year to acquire 51 per cent of Petromin, the state-owned Romanian tanker and bulk carrier company, came close to bringing down the Romanian government. The \$335m deal, billed as the largest investment



The docks at Piraeus. Greek shipowners have formed joint ventures with concerns in eastern Europe

Paul Foster

to date in eastern Europe, fell through following objections by the Romanian Development Agency, the country's investment watchdog and other state organisations, over financing arrangements.

Minerva Maritime - a joint venture set up by Petromin and a Greek owner, John Alafoutos to manage and operate 10 vessels - came close to being dissolved this year amid claims that funds were mismanaged. Four Petromin officials involved in making over vessels to the joint venture were jailed on charges of illegally exporting Romanian assets.

Greek owners involved in charter and management deals with eastern European ship-

ping concerns complain that their partners lack market know-how. The eastern Europeans fear they may be outmanoeuvred by their Greek partners. Most joint venture agreements involve a cash investment by the Greek side to upgrade eastern European ships to market standard, to be recovered out of operating profits.

Yet despite the prickly relationships, the joint ventures offer opportunities for making a quick return. They provide available tonnage which can be upgraded at a fraction of the cost of buying modern second-hand vessels and much faster than it would take to order and build a new ship.

On the shipbuilding side, low labour costs at eastern European yards help make prices competitive. The Vardinoyan-

nis group is building nine 45,000 DWT tankers at the Chernomorsk yard at Nikolayev in the Ukraine at a cost of \$270m. Discussions are under way on extending the series to 24 vessels.

The Laskarides group, which operates specialises in refrigerated tonnage, is building 17 vessels at another yard in Nikolayev. There is no price tag for the ships, since specialised equipment is ordered from western suppliers and paid for by the shipowners.

Elestan Corporation, which recently ordered a series of product carriers to be built at Newport News Shipbuilding in the US, is building three 68,000 DWT tankers on behalf of an associated company at a price of \$34.36m each.

East European yards have difficulty in financing equipment and material purchases, while they may also require expert assistance in building to high specifications. Greek owners have the flexibility to provide both where needed.

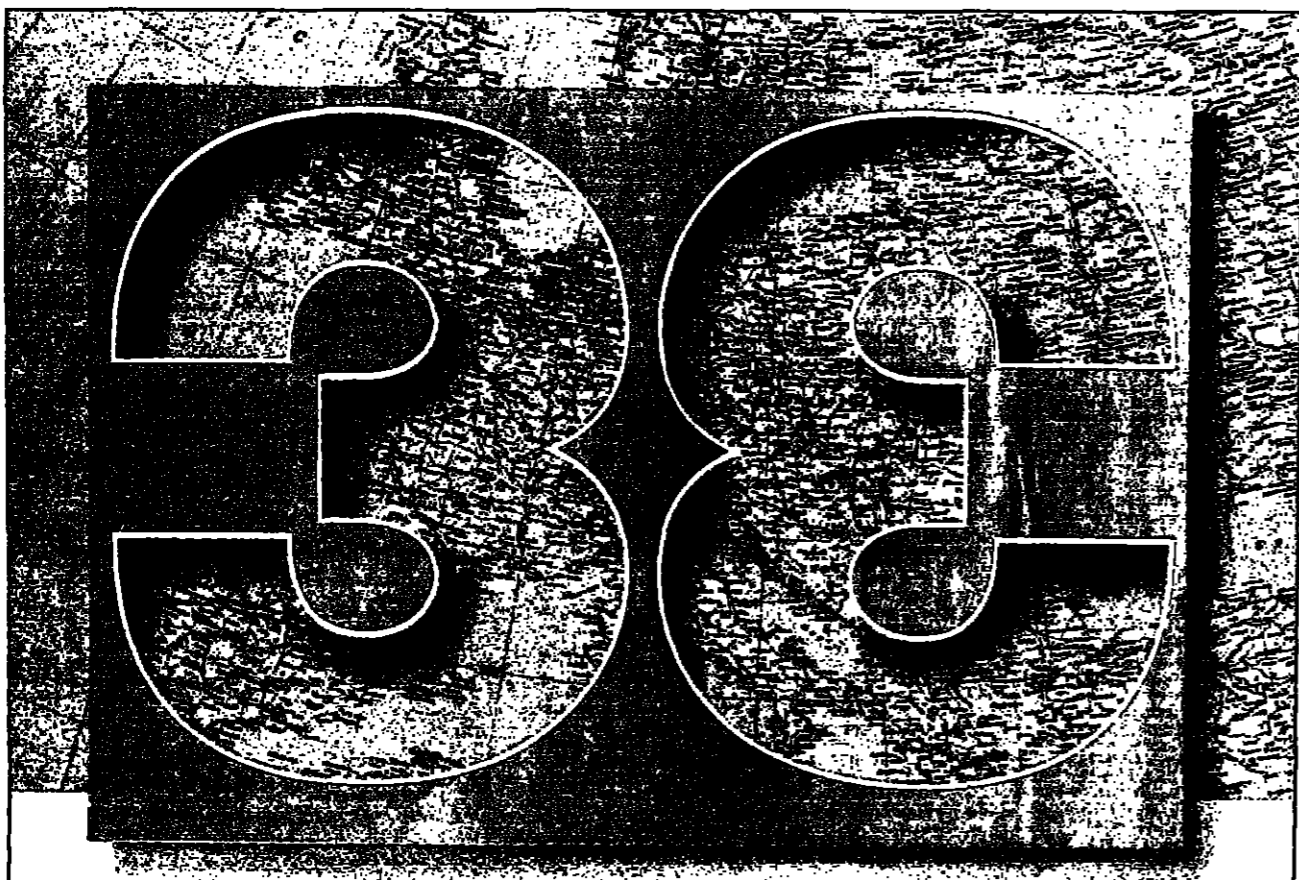
Five Flag Navigation has a 30-member team of experts based at Romanian yards where it is building 15 sophisticated vessels, including chemical, products and bulk carriers.

Greek owners have also been able to take advantage of failed order at eastern European yards. Two months ago, Enterprises Shipping and Trading took over a collapsed deal at Poland's Odansk yard from Latvian Shipping Company.

Enterprises was able to pick up the contract for two high-specification 400,000 cubic foot reefers at a considerable discount, paying \$23m instead of \$28m for each ship.

One of the biggest commitments to the eastern European market has been made by Somo Trust, set up as the shipowning and management arm of the Manley Hopkins, the UK-based shipping services group.

The company started by financing and upgrading seven Petromin ships at a cost of \$15m. It is now building seven river and ocean-going products tankers in Bulgaria, to be chartered by Russia's Volga Tankers, and has a joint venture with Azov Shipping Company of the Ukraine.



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David Marsh on relations with the European Union

Time is running out

Greece is used to its near-traditional role as both the bete noire and the enfant terrible of the European Union. In the economic field, it is the state furthest away from the meeting the "convergence criteria" determining members' readiness for economic and monetary union at the end of the century.

During the 1980s, Greece differed sharply from Spain and Portugal by suffering a continued fall in prosperity compared with its European partners. In foreign policy, Greece has frequently angered the rest of the EU over its intransigent position on the recognition of neighbouring Yugoslavia. During the summer, Greece was dogged by a series of problems over disbursement of EU funds earmarked for much-needed infrastructure projects.

At the root of Greece's fraught relationship with the rest of the EU lies the task of achieving better economic convergence with the rest of Europe. The Socialist government of Andreas Papandreu is dependent on funding from Brussels to ease budget revenue shortfalls caused by the sluggish state of the economy. However, hopes faded soon after his return to power in October 1993 that Mr Papandreu would bring in urgent action to correct the country's economic imbalances.

Formal EU monitoring of the Greek economy, put into place in 1991 after the granting of a loan from Brussels to shore up the balance of payments, has now lapsed, so the EU has no clear-cut lever to set conditions

for the disbursement of Brussels largesse. However, annual transfers from the EU make up roughly 5 per cent of Greece's gross domestic product, so the Athens government is clearly vulnerable to vexation in the rest of the EU that it is not living up to standards of economic policy prudence.

Projections of increased fiscal revenue have proved grossly over-optimistic in recent years

in its forecasts of improvement – particularly in the budgetary field – being treated with more than usual scepticism.

Projections of increased fiscal revenue have proved grossly over-optimistic in recent years – one reason why the government's hopes of holding its budget deficit to a mere 10.4 per cent of GDP this year have been widely disbelieved. However, a new tax law aimed at reducing VAT evasion, combined with a generous settlement system for disputes involving back tax, has resulted in better than expected tax receipts this year.

More than any other EU member, Greece remains beset by stagflation. At a time when the EU inflation average has fallen to 3 per cent, the Greek inflation rate is still about 12 per cent – and no lasting economic recovery is expected

until 1996. While this degree of divergence persists, bringing the drachma into a formal exchange rate link to the European Monetary System will remain a pipe dream.

As for the long-term goal of economic and monetary union, it is evident that countries in eastern and central Europe are far more likely than Greece to join a de facto European D-Mark zone later in the 1990s.

Indeed, a chief strategic worry for the Athens government must be that, as the EU's centre of gravity moves to the north and east, the attitude of its partners towards economically divergent southern states will become steadily frostier.

That could spell problems for Greece as the rules for disbursements of structural funds for poorer states are redrawn later in the 1990s. Present structural fund arrangements run until 1999. But in view of the likelihood that new members from central and eastern Europe will be competing for funding early in the next century, later conditions for distributing EU funds are likely to be much more stringent. Time for Greece to put its economic house in order has not yet run out. But by the end of the century, it may have done.

Greek banking profits will shrink this year because of a three-week currency crisis, triggered by the removal last May of all remaining exchange controls.

The drachma's struggle to fend off devaluation also revealed the mutual dependence between the big state banks which dominate the banking market and the finance ministry.

National Bank, the biggest state-owned bank, raised short-term interest rates above 70 per cent during the crisis to help protect the currency.

One banker said: "The fact that the finance ministry can use the big state banks as a policy tool meant the drachma could resist speculative attack. But it weakens the banking system."

Estimates for the banks' total losses from the currency crisis vary from Dr70bn to more than Dr100bn. Last year, net profits at Greece's top 10 banks rose by 14 per cent to Dr130bn. This year's projection has been revised downwards from 15 to about 8 per cent.

"The banking system as a whole lost money in the crisis because it couldn't pass on high interest costs and couldn't protect its funding base," a Greek banker said.

It was not just the state banks' willingness to raise interest rates to record levels that enabled the drachma to ride out the crisis unscathed.

The small size of Greece's mortgage lending market made it possible to sustain such high rates over a longer period. Total mortgage loans, mainly handled by two specialist subsidiaries of National Bank, are estimated at less than Dr1,000bn.

Consumer lending, mostly in the hands of small new private banks is also underdeveloped. The market received a boost a few weeks before the crisis, when the ceiling on consumer

Kerin Hope looks at the banking sector

Currency crisis triggers losses

loans was raised to Dr8m, only to collapse when interest rates rose sharply.

"The small private banks did better when the currency was under attack because they have a drachma surplus. But mortgage and consumer lending suffered a real setback," says Stathis Papageorgiou, managing director of Aspis Bank, a new private bank that specialises in mortgage lending.

The tight relationship between the government and the big state banks, whose governors were directly appointed by the ruling socialists, accounts for the state banks' readiness to acquire extra government securities when requested.

Thanks to their help, the finance ministry has avoided rescheduling part of the public debt.

'Much of the banking system operates for the benefit of the government rather than the private borrower'

The central bank rewarded the banks for their part in defending the drachma by paying interest for six months on the interest-free portion of their compulsory reserve requirement.

But the banks, which have big holdings of tax-free treasury bills, the main debt instrument, also benefited from a surge in interest rates on government paper in May and June, aimed at preventing a flight of capital.

Interest rates have since dropped almost to pre-crisis levels. Nevertheless, the squeeze on lending continues, with many banks still reluctant to take on new borrowers or extend additional credit to existing clients.

The big state banks agreed to underwrite about Dr600bn of Dr1,300bn needed last month to cover a hump in debt financing, in return for increased commissions.

National Bank is being paid off for its role during the drachma crisis by becoming lead underwriter for future government bond issues, which could add more than Dr10bn to its 1994 earnings.

"Much of the banking system operates for the benefit of the government rather than the private borrower," says one local analyst.

While the state banks control 73 per cent of total deposits, they account for

only 60 per cent of lending. By contrast, the private banks control just 16.5 per cent of deposits but cover 18.4 per cent of lending.

The state banks' role in lending is in fact much smaller, given that a high percentage of their portfolio consists of non-performing loans. For example, some Dr900bn of National Bank's Dr1,400bn loan book is said to consist of doubtful loans, the result of years of lending on political not banking criteria.

Not surprisingly, their market share is shrinking as Greeks turn to the more efficient private banks.

Both Credit Bank and Ergobank, the country's two largest private banks are expanding aggressively, opening new branches, investing heavily in new technology and improving their retail products.

National Bank's share of Greek deposits has fallen from 50 to 40 per cent in the past five years. While total deposits doubled in the same period, the state banks' share declined by 7 percentage points.

Smaller state banks need fresh capital and better management. Investors' appetites have sharpened with the successful privatisation of three small state banks under the previous conservative government.

Nevertheless the government seems reluctant to make state banks more competitive. For example, Commercial Bank, the second-largest state bank, is to retain control of Ionian Bank by taking up its full share of a Dr20bn rights issue planned for early next year.

Ionian was cleaning up its balance sheet, increasing provisions for doubtful loans, preparing to sell its hotel subsidiary and launching new products with the aim of attracting an outside investor.

Profile: Loukas Papademos

Banks breathe a sigh of relief

The battle lines were already drawn when Loukas Papademos took over last month as Greece's central bank governor. Mr Papademos, 46, found himself unexpectedly promoted from deputy governor to replace Yannis Boutos, a political appointee who ran the Bank of Greece for less than a year.

Mr Boutos, a former economy minister, was sacked by the governing socialists in a dispute over privatising the Bank of Crete, controlled by the central bank since a \$300m embezzlement scandal was uncovered there in 1988.

Greece's banking community has breathed a collective sigh of relief when Mr Papademos's appointment was announced.

A former Columbia University economics professor who joined the central bank a decade ago as a macro-economic adviser, he has remained aloof from the quarrels souring relations between the bank and government policymakers in recent years.

Mr Papademos agrees with the economy ministry on expediting the Bank of Crete disposal, by splitting off its non-performing assets and offering the remainder, including an extensive branch network, for sale. The bank moved into the red last year, posting losses of Dr1.2bn, and concern is growing over a rising percentage of bad loans.

More difficult is the task of persuading the finance ministry, burdened with funding a rising public debt, that it can

not afford more than a marginal decline in interest rates on government paper if the drachma is to remain stable. As recession continues, some socialist officials are pressing for substantial interest rate cuts in the next few months.

Mr Papademos says firmly that the course of interest rates "must depend on inflation developments, conditions in foreign exchange markets and progress in meeting monetary targets".

As the architect of the central bank's successful defence of the drachma following the removal of capital controls last May, Mr Papademos's views should carry considerable weight.

To deter speculative attacks on the currency, short-term interest rates were raised to high levels, while the Bank of Greece controlled liquidity by auctioning drachmas to commercial banks in return for foreign exchange.

Mr Papademos is well aware that a smooth relationship between the central bank and the finance ministry, which sets interest rates on treasury bills and recently assumed overall responsibility for debt management, is crucial to maintaining confidence in the drachma.

He points out that the cost of financing Greece's public debt could be reduced by developing the market in government securities "introducing auctions of treasury bills and promoting a secondary market in government paper".

Kerin Hope

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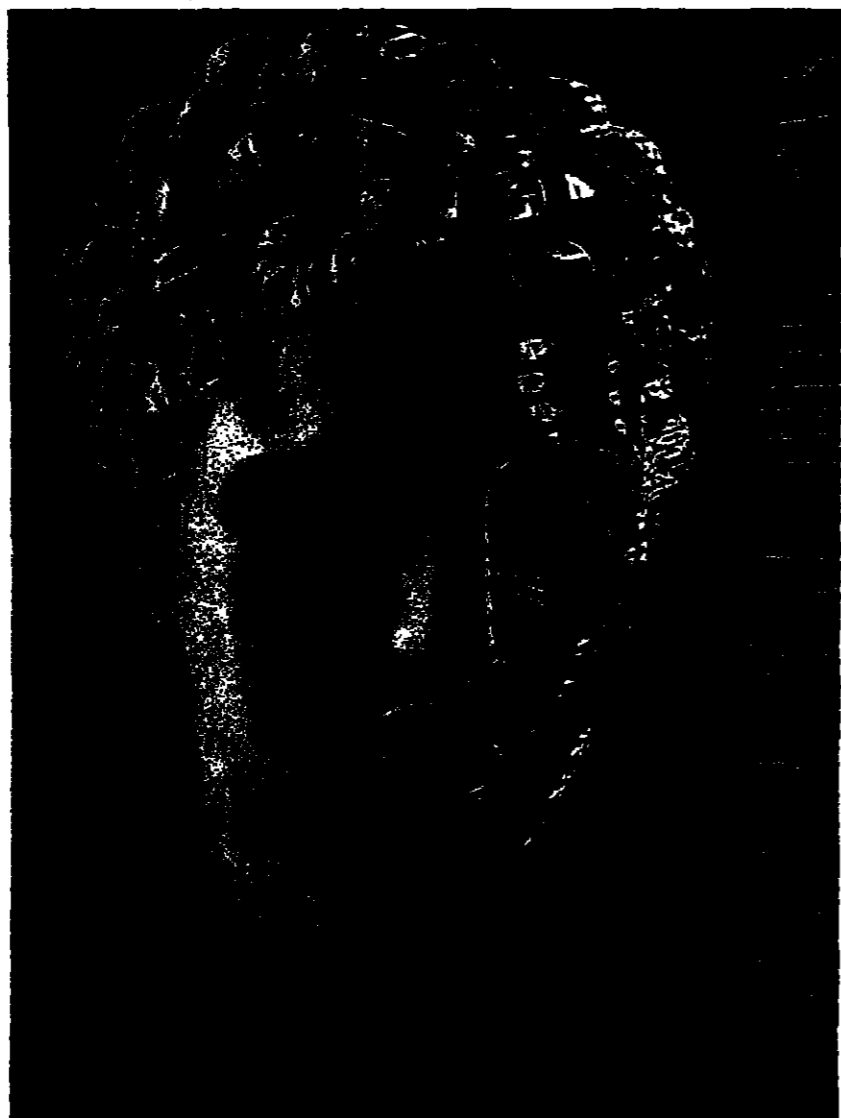
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GREECE 4

Kerin Hope looks at tourism

Visitors are spending less

standing hotel loans. According to some estimates, about 20 per cent of Greece's hotel stock is up for sale.

Another reason for the hotel industry's problems is that Greece has become a "sun and sea" market for package tourism rather than an exotic destination for better-off visitors looking for ancient sites and

traditional village life and tourism earnings have failed to keep pace with the increase in numbers.

Tourist arrivals rose from 5.2m in 1983 to 9.5m in 1993, while revenues grew from \$1.7bn to \$6bn during the same period. But the average European tourist spent less than \$250 in Greece last year, com-

pared with about \$350 a decade ago.

"The tourist season is only six months long. Revenues would be much higher if it could be extended by providing more sports and entertainment facilities for visitors," says Vassilis Avramopoulos, an adviser to the tourism ministry on foreign investment.

The government's plans for moving Greece's tourist industry upmarket are based on the creation of resort complexes that will include casinos. Last month, the tourism ministry awarded four casino licences to international gaming operators for a total of Dr13.2bn.

Another six licences, including two in the Athens area and others on Rhodes, Crete and Corfu, are to be granted in the next two months.

Hyatt Casino Corporation, the gaming arm of the US hotel chain, paid Dr9.2bn for a 19-year licence to build and operate a casino resort on a greenfield site outside Thessaloniki. The \$120m investment will include a 130-bed luxury hotel, a conference centre and a park.

Hyatt is also bidding for one of the Athens licences, which are valued at about Dr10bn each, while London Clubs, the UK casino operator, is a frontrunner for the second licence, which would involve the building of a luxury hotel, marina and park on the sea-front near Piraeus.

"The casino projects will do much to upgrade Greek tourism over the next five years by setting higher standards of accommodation and entertainment in the main tourist areas," says Christos Vlachos of Eurofin, an investment consultancy.



Kavala Fort, Epirus: plans are to move tourism upmarket

By Uniquis

Profile: Citibank

Following the Greek pattern

Kallithea, a noisy middle-class Athenian district of apartment blocks and small businesses, is the site of what Citibank executives call their banking laboratory.

Citibank's Kallithea branch, one of 18 around the Greek capital, is the model for developing the US bank's consumer operations worldwide. Its know-how is now being transferred to Hungary, where Citibank will become the first international bank to enter the retail market.

Arul Vohra, general manager for consumer banking in Hungary, says: "We expect to follow the pattern of Greece, because of some basic similarities in the market. Like Greece, Hungary is a cash society with a large number of small businesses."

Citibank's first consumer branch in Hungary will open next spring in Budapest, where the bank already has a sizeable corporate presence. The consumer network is expected to grow to five branches within three years.

The bank's new Hungarian staff have had training in Greece using systems developed in Athens for the local market. The Hungarian network will also be supervised from Greece and linked with Citibank's technology platform for Europe, based in Germany.

Mr Vohra says: "We're introducing 1995 technology for customers right away and combining it with local needs."

Citibank intends to offer its Hungarian customers a savings and checking account, to be followed by credit cards and investment products, also on the Greek model.

The Kallithea branch has pioneered new electronic services such as 24-hour telephone banking and paperless deposits and withdrawals, which will be available in Budapest.

"As one of the bank's most successful operations abroad, Greece was a suitable place for experimenting. We had lots of resources and a very committed staff," says Sophie Palmer, business manager for consumer banking.

Citibank has the largest operation of any foreign bank in Greece, with assets of Dr540bn and extensive shipping finance and investment banking activities.

In Kallithea, where the branch caters to small depositors and local businesses, the number of accounts has increased by 20 per cent since the new services were launched.

Traffic through the branch has also increased by 20 per cent since it was redesigned to eliminate queues by providing a "greeting" service to customers and making account officers more accessible.

Circe Psychogiou, branch manager, says: "The day we reopened after the changeover, the customers looked quite bemused. But it changed the quality of the relationships: everyone's much more polite."

Kerin Hope

Spending on R&D is low, says Kerin Hope

Slow to catch on

Only a few Greek companies make research and development a priority. Most prefer to pay royalties on imported technology.

Greece lags far behind its European Union partners in R&D, spending only 0.4 per cent of gross domestic product on research, compared to an average of 2.5 per cent in northern European countries.

The lack of opportunity at home drives Greek research students abroad, usually for good. There are now more than 5,000 Greek researchers working permanently in western Europe and the US.

Nikos Christodoulakis, head of the Greek government's research secretariat, believes this will change. The catalyst, he says, will be increased funding for science and technology from the EU's new structural aid package, amounting to Ecu150m over the next three years.

"We want to raise research spending to 1 per cent of GDP by the end of the 1990s and fund several hundred more researchers here in Greece," he says.

In the past decade the number of government-backed research operations, including new research centres, technology development companies in different sectors and technology parks, has grown from 114 to 270.

But technology parks attract relatively few applicants, while private companies show little interest in co-operating with the development companies.

Mr Christodoulakis is trying to link companies directly with researchers in order to work on specific projects.

From next year, companies joining in the programme will contribute an average Dr5m over three years, with additional funding for small teams of in-house researchers coming from the government.

"There's no doubt that we have the talent. Greece handles over 3 per cent of the EU's competitive R&D programmes, though it has only 0.6 per cent of the union's research population," he says.

The scheme is attracting more participants than expected, as Greek companies start looking for ways to remain

Greek companies are starting to look for ways to remain competitive in the single market

competitive in the single market.

One of the biggest research spenders is Econ Industries, an electronics and precision components manufacturer, which allocates 10 per cent of its Dr20bn turnover on R&D.

After rapid expansion in the late 1980s, the result of winning co-production work in offset deals linked with Greek government weapons contracts, the company wants to diversify.

"We drew well out of retro-fit kits to upgrade Greek army tanks, and we have an export market for our power amplifiers and night vision equipment. But our growth prospects are better in the civilian market," says Dimitrios Economides, managing director.

Econ's night vision camera, originally designed for military use is being adapted both

for civilian electronic surveillance and security systems and for use on yachts.

Alex Economides, Econ's plant manager, says: "To stay competitive, we have to design our own electronic products and devise something new every year. But as there are few jobs at home for Greek optical engineers, we have a very high quality workforce."

But the market for research in Greece is limited. In northern Greece, the Adhesives Research Institute, the research arm of ACM Wood Chemicals, a Greek-owned company based in Switzerland with manufacturing ventures in Canada and Belgium, provides technology almost exclusively for export.

ARI has found a way of eliminating formaldehyde emissions, increasingly seen as hazardous to health, from resins and additives used in making particle board and other wood products.

But its products are not in demand in Greece, where timber processors are not required by law to limit formaldehyde emissions and export mainly to countries without strict environmental controls.

ARI makes cost savings through being based in Thessaloniki, where researchers' salaries are lower than in western Europe. Through its parent company, it develops close relationships with customers abroad to make up for the lack of interest among local manufacturers.

Pavlos Mouratides, assistant head of research, says: "We cooperate with some local manufacturers in testing our products, but they don't go into regular production."

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MARKETS THIS WEEK

TONY JACKSON:
GLOBAL INVESTOR
US quarterly results showed sharp increases in sales and profits, as might be expected at this stage in the cycle. But many manufacturers said they were still shedding labour, and quite a few were unable to raise prices. Here is productivity and no mistake. If this is what the peak of the cycle looks like, God bless the workers in the next downturn. Page 19

PETER NORMAN:
ECONOMICS NOTEBOOK
Globalisation has become a buzz word, but nobody seems to know how to measure it. The most dynamic element has been foreign investment, other factors include trade and various types of collaboration. But translating these activities into sums of money is marred by gaps in the statistics. Page 19

BONDS:
Weekend demonstrations in Rome against Mr Silvio Berlusconi's budget proposals together with a parliamentary vote of confidence scheduled for today should put Italy in the spotlight. The country is also expected to re-enter the eurozone soon, with a ¥400bn (\$4.1bn) eurobond. Page 20

EQUITIES:
The US stock market will probably have to withstand an interest rate increase by the Federal Reserve this week. It will also face more pronouncements from Republican leaders in Washington about what they plan to do now they possess a majority in both houses of Congress. In the UK market, a slowdown at the end of last week put the brakes on what had been a growing mood of bullishness. Page 23

EMERGING MARKETS:
Growing prospects seem to be improving in Latin America as political storm clouds clear. However, the feelgood factor has yet to assert itself. Page 22

CURRENCIES:
It should be a turbulent week for the dollar with a critical meeting of the Federal Open Market Committee and a bevy of important financial data. Page 22

COMMODITIES:
The price of palladium is at a five-year peak. Traders will be looking for clues on its future when Johnson Matthey, the precious metals group, presents its interim review tomorrow. Page 19

UK COMPANIES:
Johnson Matthey is discussing a merger with Cookson, the specialist industrial materials group. The companies would have a combined market capitalisation of about £2.5bn. Page 16

INTERNATIONAL COMPANIES:
Japan's integrated steel makers have passed their interim dividends after disappointing half-year results. Page 17

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This week: Company news

VOLVO Go-it-alone group fires on all cylinders

Volvo has never looked back since shareholders scuppered its plans to merge with France's Renault, a fact that will be underlined when the group presents its nine-month figures tomorrow.

Sweden's biggest industrial group is expected to report pre-tax profits of more than SKr12bn (\$1.64bn) for the period, compared with last year's SKr1.06bn. Swiss Bank Corp in London forecasts a profit of SKr12.3bn for the nine months and SKr15.5bn for the full year. The nine-month figures will include about SKr5bn of one-off gains, primarily proceeds from the sale of non-core businesses.

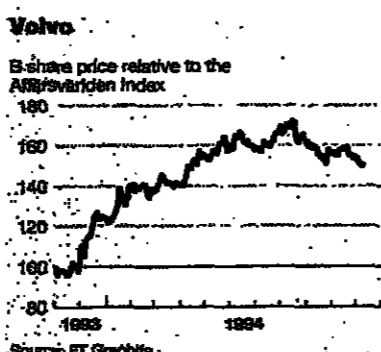
But there has still been a huge improvement in underlying profits. The group has benefited from a big rise in car and truck sales, due to strong demand in its main markets. Competitiveness has been enhanced by the weak krona and by productivity gains after three years of tough cost-cutting.

In the third quarter, profits should exceed SKr3bn, including more than SKr900m in gains associated with the winding up of Protorp, the investment group.

Investors will be hoping to hear more about the group's disposal plans. The company has said it plans to sell off SKr400m of non-core assets before the end of 1995 to focus on its core automotive businesses.

The big candidate on the list is BCP, the food and drinks group, which is valued at more than SKr20bn. The company also holds a 26 per cent stake in pharmaceuticals group Pharmacia, but it cannot sell this before 1996 under a government pact.

The priorities on the car side remain model development, as the group is looking to expand its current range, including adding a new medium-sized car. Development is certain to include deeper collaboration with other manufacturers.



JAPAN Pocket pagers prove popular for Casio

Casio, the watch and electronic products maker, is expected to show a firm performance when it reports results for the first half on Wednesday. The company is enjoying strong demand for its pocket pagers while its new launches, such as home-use printers and personal communications systems, are a growing market.

● Sony, the consumer electronics maker, is expected to indicate that it is pulling out of the economic downturn when it reports its mid-term results on Thursday. The company has been working to increase its overseas manufacturing to shield itself from the impact of the high yen. Sales growth in Asia, outside of Japan, and the benefits of new products such as wide-screen television are forecast to have a positive impact on profits.

● Pioneer, the audio-visual company, will report results on Friday that are likely to show the impact of the slump in the audio market. Unlike its larger competitors, Pioneer has been unable to benefit from the popularity of wide-screen televisions, which it does not make. Restructuring is proceeding and is likely to enable it to reduce losses.

● Honda, the automobile maker, will report results on Friday which are expected to indicate its weakness in the Japanese market. The company has been losing market share in contrast to the strength of its operations in the US.

OTHER COMPANIES Investors awaiting German flotation

Hanover Re: Germany's second largest reinsurance group will today announce terms for its flotation, which is expected to raise about DM600m (\$400m) later this month. The issue will be led by Commerzbank and directed at domestic and foreign investors. With its sister company, Eisen und Stahl Rückversicherung, premium income last year totalled DM5.3bn.

● Svenska Handelsbanken: One of Sweden's biggest banks will tomorrow show a sharp improvement in its nine-month profit, driven entirely by a drop in loan losses. The underlying performance will probably be weaker due to lower lending volumes and narrow margins.

● BOC: Full-year pre-tax profits tomorrow at about £260m will be sharply down on last year thanks to an £85m restructuring provision early this year. Interest will centre on underlying growth in the healthcare business, which has been hit by the US patent expiry on the anaesthetic gas Forane.

● British Gas: Third-quarter results are due on Wednesday. The company usually reports a loss at this time, because the period covers the months of lowest demand for natural gas. Analysts expect a loss of £200m (£328m) to £240m. The results coincide with the Queen's Speech, in which the UK government is expected to announce

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Bankers Trust moves derivatives staff

By Richard Waters in New York

Bankers Trust, the US bank that faces two lawsuits over derivative instruments it sold, has moved six executives out of their jobs after the discovery of apparent irregularities in its derivatives operations.

They include three managing directors, among them Mr Jack Lavin, one of the bank's most senior executives and the head of its corporate derivatives business. All six have been put on "special assignment" while an internal investigation continues.

The actions, taken on Thurs-

day but not announced, were prompted by the findings of an internal review the bank launched after it came under attack this year from two customers, Procter & Gamble and Gibson Greeting.

Both companies have since launched legal actions against Bankers Trust, saying they were misled about the real risks involved in the derivatives they bought. The bank has strongly denied both claims.

Bankers Trust's investigation is believed to have uncovered breaches of its record-keeping regulations, as well as sales

methods that did not meet its rules.

The discovery of those apparent internal irregularities will come as a serious setback for the bank, which has been a pioneer in the development of the fast-growing derivatives markets. It will also add to the pressure on it to settle the lawsuits quickly.

All the apparent breaches are believed to involve leveraged swaps, the type of instruments sold to P&G and Gibson.

Under a normal swap, the bank and its customer agree to exchange payments in the future based on the level of interest

rates. Such instruments are used by companies as protection against changes in interest rates, or to lower their borrowing costs.

In a leveraged transaction, interest rate changes are magnified, making such instruments far more volatile when rates move.

Procter & Gamble is suing Bankers Trust for \$130m (\$81.5m) after losses this year after US interest rates started to rise. In an interview last week before the executives were relieved of their responsibilities, Mr Brian Walsh, head of derivatives, said the bank had sold leveraged swaps to "less

than a dozen" companies, all of them in the US. The bank refused to say how many possible breaches of its rules it had uncovered.

Five of the people moved worked on the bank's corporate derivatives desk, which sold these financial instruments to companies, while the sixth was in a support area.

In a further move, Bankers Trust has merged the corporate desk, which had employed around 20 people, with its institutional derivatives operation, which sells derivatives to investors and financial institutions.

Good results may be mixed with a tirade against subsidies, writes Andrew Baxter

Sweet and sour flow from British Steel

If tradition is anything to go by, British Steel's half-year results today will be accompanied by a maelstrom of rhetoric from Mr Brian Moffat, chairman and chief executive, on the inequity of subsidies to rival European Union producers.

Less than a week after the partial withdrawal of the European Commission's rescue plan for the industry, Mr Moffat is likely to warn that the failure to achieve required cuts in EU overcapacity, and to tackle the subsidies issue adequately, will only store up problems for the next downturn.

The company's irritation, however, contrasts strikingly with the gleaming numbers it is likely to produce today. Analysts are expecting pre-tax profits of £130m-£150m (£213m-£246m) for the half-year to the end of September, up from £27m a year ago.

This would put the company well on course for expected full-year profits of £400m-£425m, dwarfing the £80m achieved last year, which included a £24m provision for an EU fine. And this from a company which had combined losses of £204m in the two previous years.

British Steel has been consistently critical of subsidies in Europe because it wants a level playing field in an important market. In 1989-94, EU countries excluding the UK accounted for £1.03bn of its £4.19bn of sales.

But, in the short term at least, market conditions have made the ill-fated EU rescue plan almost irrelevant. An upturn in demand that began in the UK last year and has since spread to the conti-

nent, along with supply shortages, has transformed the trading environment.

In sterling terms, prices for strip products are back up to 1989 levels, and nearly there for sections and plates, says Mr Euan Fraser at James Capel. Price rises will be "overwhelmingly the most important" factor in the results today, he says.

The results will provide an important indicator of how quickly British Steel's profit and loss account is benefiting from the price rises.

Contracts with big customers are fixed annually, which complicates any forecast. But Mr Tim Bennett at Albert E. Sharp, the Birmingham-based brokers, says half-year profits above £130m could make his full-year forecast of £425m - already revised upwards from £320m - look conservative.

Mr Fraser believes there is still good scope for British Steel to raise prices further. Other positive factors are lower raw material costs and interest charges, and a much better performance from associated companies, especially Avesta Sheffield, the Anglo-Swedish stainless steel producer.

The much improved profits from Avesta leads Mr Bennett to expect British Steel's share of associated companies' profits to be £15m-£20m for the first half, compared with a loss of £8m a year ago. In September, British Steel raised its stake in Avesta from 40 to 49.9 per cent.

Beyond this year, says Mr

Fraser at James Capel, British Steel could easily make £550m in 1995-96 and £900m in the following year. He warns, however, that "once you look that far out it is guesswork".

It is in the later 1990s, when the next dip in a historically cyclical steel market may be expected, that the failure of the EU's rescue plan could become more relevant to British Steel and its ambitions in Europe.

In evidence to the House of Commons Trade and Industry Committee earlier this month, the company said the outcome of the EU restructuring plan had brought it minimal benefits.

The required shake-out of excess steel capacity in the EU, which would have taken place in the recession under free market conditions, had not occurred, it said.

The fundamental overcapacity will still be there at the next downturn, it added, "putting a number of producers which have benefited from subsidies/debt forgiveness in a considerably stronger position".

In a falling market, therefore, British Steel is unlikely to find it any easier to make profits in Europe than it does now.

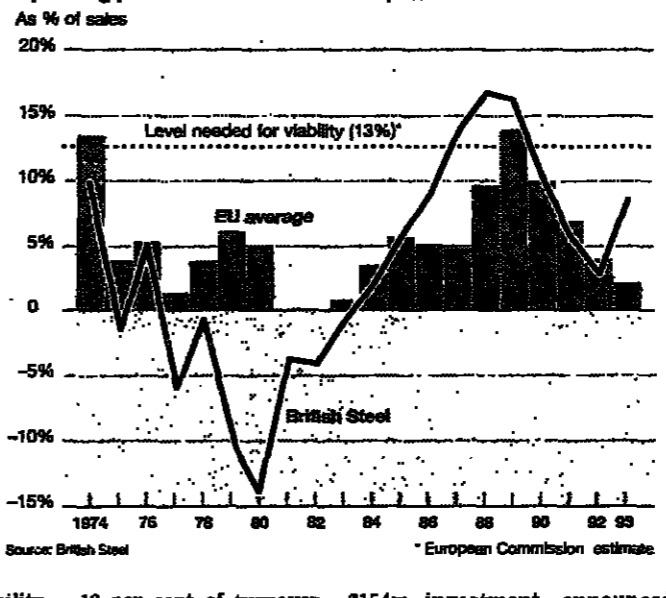
British Steel places the blame on subsidies, and the significant level of state ownership in the industry, which means that "profit has not of necessity been the primary consideration for many companies".

In only two of the last 20 years, it says, have the EU producers earned a level of operating profit adequate to ensure long-term via-

Main EU steel producers



Operating profit before interest and depreciation



Source: British Steel

ability - 13 per cent of turnover according to the Commission (see table).

This scenario explains why, in recent months, British Steel's more confident post-recession stance on investment has been mainly directed towards projects outside Europe, where profits long-term are likely to be higher.

The most important was the

\$154m investment, announced last month, to build a plate mill at the Tuscaloosa Steel subsidiary in Alabama. But expansion in the Far East is also continuing.

In contrast British Steel's European investments, such as the £26m being spent on increasing its Avesta Sheffield stake, are likely to remain highly selective.

Car park group to outline buy-out

By Simon Davies in London

National Parking Corporation, owner of the UK's biggest car park operator, is set to reveal details of a leveraged buy-out by venture capital institutions which should value the business at about £650m (\$1.1bn). The deal, due to be announced at NPC's annual meeting on December 8, is likely to be the largest UK venture capital buy-out so far this year.

Prudential Venture Managers, a venture capital consortium, should unveil the agreed purchase of about 72 per cent of NPC's shares, primarily owned by founders Mr Ronald Hobson and Sir Donald Gosling, and charitable foundations of which they are directors. NPC owns National Car Parks, the biggest operator of car parks in the UK. Prudential has brought in backers Charterhouse Development Capital, Claven, Electra, Montagu Private Equity, NatWest Ventures and Royal Bank Development Capital. They are expected to put up about 50 per cent of the cost as equity. The remainder will be funded by bank debt, to be arranged by a syndicate led by National Westminster Bank.

The founders sold 28 per cent of the company to a number of financial institutions in 1986, and these are likely to be offered shares in the new company, as an alternative to the cash offer.

It is understood that no final agreement on pricing has been reached. However, due diligence is complete, and NPC has written to shareholders saying that "we hope to be able to give shareholders further information at the AGM", when the final offer should be revealed.

The letter to shareholders accompanied NPC's latest profit figures, for the year to March. Profits before exceptional items rose from £48.6m to £50.4m.

NPC was set up by Mr Hobson and Sir Donald in 1949, but for the past year the founders have been keen to sell. The joint chairmen wished to ensure continuity for the existing management and turned down the option of a share disposal, via flotation.

The attraction for the new investors is strong cashflow from the car parks, plus growth potential in the more dynamic Green Flag subsidiary, which controls National Breakdown.

This announcement appears as a matter of record only.



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Co-underwriters
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NatWest Markets Acquisition Finance**

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Legal Advisors to Bank of Boston
Taylor Joyson Garrett

The undersigned underwrote, agent and distributed
this financing through its Special Industries Group
and Corporate Finance Department



BANK OF BOSTON

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COMPANIES AND FINANCE

Cookson and JM may merge

By David Blackwell

Johnson Matthey, the precious metals group, and Cookson, the specialist industrial materials group, are considering a merger.

The two companies, which have grown closer over the past 12 months, said yesterday that discussions were at a relatively early stage. But it is understood that if a deal is done, events will move quickly, possibly being completed by the end of the year.

Any recommendations to shareholders would "be based on the relative contributions of each company to the merged

group," the two companies said.

Mr David Davies, chairman and chief executive of Johnson Matthey, has made no secret of his ambition to take the company into the FT-SE 100 index.

The two companies would have a combined market capitalisation of about £2.5bn, annual sales of £3.5bn and forecast profits of more than £200m.

JM, which reports its interim results on November 24, is expected to make pre-tax profits of at least £90m for the financial year ending March.

Cookson, which is expected to make profits of about £115m in the year to end-December

before restructuring costs, has been turned round by Mr Richard Oster, its flamboyant US chief executive. He has taken the group out of its non-core businesses, selling 25 engineering subsidiaries earlier this year.

Last December Cookson bought JM's jewellery materials operations for £37m, and in March the two linked their ceramics interests in a venture that made them number two in the world market. The latter deal was described by Mr Oster at the time as "a sort of dream come true".

The logical step towards a full-blown merger is thought to have been instigated by Mr

Robert Malpas, Cookson's chairman. He would be likely to remain on the board of the new company as a non-executive director.

Mr Davies is expected to be chairman. He took on the additional role of chief executive at JM only in March after Mr Richard Wakeling resigned.

Mr Oster would be chief executive. It is not the first time that Cookson has taken an interest in JM: it took a stake in the late 1980s, but had to sell.

The deals between the two companies over the last year have led to a much more friendly atmosphere this time.

Asprey furious at £20m loan 'leak'

By David Blackwell

The Bank of Scotland will today be launching an investigation into how documentation purporting to come from the bank on a £20m loan facility for Asprey was made public.

Asprey, jeweller to the super-rich, said yesterday that it would be taking legal action against the Mail on Sunday, which published a story saying that the company was in potential default of the facility and might face receivership - a suggestion Asprey dismissed as absurd.

The bank is considering making a statement of its own later this week.

Yesterday it said the loan facility was "being conducted in accordance with the terms of the agreement between the bank and the company, and is therefore fully available".

Asprey, which will announce its interim results on November 23, said the Mail on Sunday story "appears to have been designed to cause maximum damage to Asprey's reputation and standing in the market place".

The company's shares tumbled from 310p to 200p in early September after a warning that the loss of a few big-spending customers would depress profits.

Last month market rumours about its financial position knocked the shares back to 195p.

The company was forced to put out a statement to the Stock Exchange asserting that the rumours were "without basis in fact".

The shares closed on Friday at 157p.

Asprey said the Mail on Sunday had not contacted the company or the Bank of Scotland about its story, which appeared to be "based on a draft, unsigned, internal memorandum purporting to emanate from the bank".

Asprey added: "If the document is genuine, the company believes that it may have been obtained by unlawful means."

Barclays sells US credit arm at \$290m premium

By Richard Waters in New York

Barclays has reached agreement to sell its asset-based lending business in the US for a premium of \$290m (£177m) over its book value, a price which reflects the company's strong track record.

The sale of Barclays Business Credit, which is expected to be completed early next year, is the latest in a series of disposals intended to leave the UK banking group with a focus on investment banking

business in the US.

The company, which had receivables of \$2.1bn at the end of September and 15 offices around the US, is being bought by Shawmut, the New England-based banking group.

Barclays Business Credit, which made profits of \$87.5m before tax last year and \$66.1m in the nine months to end-September, had net assets of \$213.7m at the end of last year.

The price paid by Shawmut represents a substantial multiple of this 1993 book value, reflecting the highly profitable

nature of its business. However, Mr Joel Balvard, the US bank's chairman and chief executive, said the deal was "financially attractive and immediately accretive to earnings per share" for Shawmut.

The credit company, which has 300 employees, originates and syndicates loans - of between \$5m and \$150m to medium-sized companies. It had been part of Aetna, the US insurance group before Barclays bought it in 1980. The sale will result in a pre-tax profit to Barclays of \$271m.

Union sells Sabre for £8.4m

Union, the discount house, is selling Sabre, its sales aid leasing division to GE Capital, the financial services side of General Electric of the US, for \$8.4m cash.

The move marks the conclusion of Union's withdrawal from sales aid leasing.

Payment of £2.7m is deferred for three years.

The sale will release £30m of inter-company funding used to finance Sabre and generate profits of about £1.5m. Sabre was acquired in 1988 and provides sales aid finance on small ticket items such as office equipment.

For the 1993 year it achieved profits before tax - and £1.1m of group management costs - of £3.68m, against losses of £3.36m, on turnover of £14m (£13.6m). The results were helped by lower debt provisions of £1.37m, compared with £5.73m.

Net asset value at completion is expected to be about £3.6m.

Union said that Sabre had been restrained from writing as much new business as it would have liked by the fall in the group's capital base in 1991-92. That had resulted in an ageing portfolio.

If it had remained in the group, Sabre's growth and profitability would have been constrained for the foreseeable future.

Hardy seeks £9m for syndicate

By Ralph Atkins, Insurance Correspondent

The trickle of extra corporate capital into Lloyd's of London continues today with the announcement of a new company that plans to raise up to £9m to invest in the 1995 underwriting year.

Hardy Underwriting plans to invest exclusively in Lloyd's syndicate 383, managed by Hardy (Underwriting Agencies), which specialises in helicopters among other business.

The company intends to

raise the cash via an offer of 4.5m units of one ordinary share at 100p and £1 of 10 per cent convertible unsecured loan stock at par.

Other companies expected to announce plans to raise funds in time for 1995 include the Brockbank managing agency, which runs some of the largest Lloyd's syndicates. Brockbank is aiming to raise up to £50m, sufficient to underwrite about £50m of business on Brockbank syndicates.

Meanwhile Wellington Underwriting, which is seeking

a stock market listing, is due to complete arrangements this week for placing 30m shares at 100p. Its efforts have been hindered by the failure of Lloyd's council last week to approve new arrangements allowing corporate companies to invest in each other.

Mr Peter Middleton, Lloyd's chief executive, estimates that corporate investment next year will be only about £250m more than the total £900m committed in 1994, the first year in which corporate capital was allowed.

Ushers aims to double pubs after cash raising

By Richard Wolfe

Ushers, the Wiltshire-based brewer, aims to double the size of its pub chain after coming to market later this month.

The group, which publishes its pathfinder document tomorrow wants to clear existing debt before expanding its estate of more than 460 pubs.

At present its financing includes £35m of senior debt and an interest rate "collar" which cost £1.6m this year. Further borrowings are subject to the agreement of a syndicate of 11 banks.

The cash raising is expected to value the company at £100m.

Ushers, whose Trowbridge brewery dates back to 1824, was formed in 1991 after a

£71m management buy-in from Courage.

Mr Roger North, chief executive, said the company would benefit from the large breweries selling pubs in the south-west, where it is the largest regional brewer.

"We are looking for the small town and village community pub, rather than the town centre boozer," he said.

The group has already paid off £15m of debt in its three years of existence and invested another £13m in modernising its pubs and brewery.

The brewery's first results are also due tomorrow. Analysts forecast operating profits of £14.9m on turnover of £54m, compared to last year's profits of £13.4m on £48.8m turnover.

Chrysalis buys 50% stake in comedy vehicle

Chrysalis, the music and media group, has acquired a 50 per cent stake in GDTV, a newly formed independent production company set up as a vehicle to exploit the works of Mr Geoffrey Dean, one of Britain's most successful young comedy writers.

His recent credits include Birds of a Feather, May to December, and Chef.

Put and call options, exercisable after August 31 1998, have been created on the remaining 50 per cent. If exercised, Chrysalis will pay an amount linked by a formula to GDTV's profits but subject to a cap of £2.5m plus 10 per cent of any excess of the product of the formula over this amount.

Toad Innovations raising £2.5m

By Richard Gourley, Growing Business Correspondent

Toad Innovations, a car security company, is planning to raise about £2.5m through a private placing of shares that will be traded under the Stock Exchange's lightly regulated Rule 4.2 facility.

The shares will move to the Alternative Investment Market when it is launched next year as a replacement for the Unlisted Securities Market.

Toad has negligible sales but is developing a range of products to protect car and commercial vehicles, including an in-car camera

which records attempted break-ins.

Mr Chris Evans, founder and non-executive chairman, has raised money in the last two years for two other companies - Chiroscience and Celsis - both of which availed themselves of Stock Exchange rules allowing biotechnology companies to float on the main list without an established record.

Both were loss-makers. Other private backers from Toad's launch in March 1993 include Mr John Precious, chairman of Celsis and former finance director of Wellcome, and Mr Bill Edge, director of Grosvenor Venture Managers.

The Toad issue is sponsored by Henry Cooke, an active promoter of issues under Rule 4.2, formerly known as Rule 585.2.

It said there had been a steady flow of new issues this year, many of which planned to move to the AIM.

Rule 4.2 issues are particularly tax efficient for some investors. Although they have quoted shares they are considered private companies, which means investors can shelter capital gains tax liabilities crystallised on the sale of almost any asset by investing the gains in shares of companies traded under the rule.

CROSS BORDER M&A DEALS					
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT	
Kerry (Ireland)	Units of Allied Domecq (UK)	Food	£248m	Allied begins food disposals	
Forte (UK)	Meriden (France)	Hotels	£217m	Deal finally clinched	
Empress La Moderna (Mexico)	Agrow Seed Co (US)	Agriculture	£188m	ELM continues diversification	
Hyundai (S Korea)	NCR (US)	Semiconductors	£188m+	Strategic buy from AT&T	
Chinlon Global (Taiwan)/Volvo (Sweden)	Chinchun Motor (JV)	Vehicle manufacture	£80m	New production venture	
Kerwood Appliances (UK)	Arista (Italy)	Household appliances	£22m	International strategy buy	
CRH (Ireland)	Canteras Cerro Negro (Argentina)	Building materials	£20m	CRH's emerging market debut	
EDS (US)	GCS (N Zealand)	Computer services	£18.3m	Continues NZ expansion	
Cookson (UK)	Alpha Grillo (Germany)	Electronics	£10.4m	Buying out JV partner	
Vodafone (UK)	Robert Bosch Telecom (France)	Mobile telecoms	n/a	Acquiring full control	

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of

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The undersigned initiated the transaction and acted as exclusive financial adviser to Jefferson Smurfit Group plc in the acquisition.



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News Corp, Telstra in joint venture

There are now the two cable-based consortia, plus the three satellite licence holders - Australis Media, Continental Century, and the publicly-owned Australian Broadcasting Corporation.

Greyhound agrees terms of restructuring

However, bondholders disagreed with the plan because

they were offered only 40 per cent of the company's common stock in exchange for their bonds. Under the revised plan, bondholders will own 45 per cent of the company and Grey-

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LINDE AG



Final Maturity of the Warrants to acquire Common Shares of Linde AG

from the DM 150,000,000 - Bonds of the 3 1/4 % DM Bonds of 1984/1994 with Warrants attached to Linde International B.V., Amsterdam, The Netherlands

Pursuant to the Conditions of the Warrants the Subscription Right arising from the Warrants (WKN 889 400) attached to the above bond issue may be exercised until December 15, 1994 inclusive. After that date the Warrants are no longer valid.

The Subscription Price is DM 343.33 per Linde share of DM 50 par value. Shares arising from the Warrants are entitled to the full dividend for the respective business year of Linde AG, in which the Subscription Right is exercised. To exercise the Subscription Right, the bearer of the Warrant must, through any Receiving Agent, file a written notice with the Warrant Agent, the Deutsche Bank Aktiengesellschaft, Frankfurt am Main. The required notification form is available from any of these Receiving Agents. The Exercise Notice is binding. At the time the notice is filed, the Subscription Price must be paid and the Warrant be presented together with all Receipts not yet called by the Warrant Agent. The Exercise Notice becomes effective only if the Deutsche Bank Aktiengesellschaft, Frankfurt am Main, receives the Subscription Price and the Warrant by Thursday, December 15, 1994 at the latest. For legal reasons, notices to exercise the Subscription Right which are not received by Deutsche Bank Aktiengesellschaft before expiration of the deadline cannot be accepted.

Receiving Agents are in the Federal Republic of Germany the following banks and their branches:

Deutsche Bank Aktiengesellschaft
Commerzbank Aktiengesellschaft
Dresdner Bank Aktiengesellschaft
Merck, Finck & Co.

outside the Federal Republic of Germany the head offices of the following banks:

ABN AMRO Bank N.V.
Schweizerische Bankgesellschaft/Union Bank of Switzerland
Banque Nationale de Paris
J. Henry Schroder Wagg & Co. Ltd.
Schweizerischer Bankverein/Swiss Bank Corporation
Société Générale
Generale Bank

In line with standard practice on the stock exchanges the Warrants will be traded and officially listed on the German stock exchanges for the last time on December 8, 1994.

The DM-bonds (WKN 474 533) from the abovementioned issue, mature on December 15, 1994 and will be redeemed at par.

LINDE AG
The Board of Managing Directors

Wiesbaden, November 1994

CONTRACTS & TENDERS



PETROBRAS
PETROBRAS S.A.

INTERNATIONAL COMPETITIVE BIDDING NOTICE BIDDING NOTICE N° 874-81-0019/94

Petrobras Brasileiro S.A. - PETROBRAS has received a loan in various currencies equivalent to US\$ 260 million from the WORLD BANK and intends to apply a portion of the proceeds of this loan to the purchase of material and equipment for the erection of one Hydrothermal Process Unit at Presidente Bernardes Refinery, in Curitiba - SP - Brazil.

This bidding will be made under the rules of the WORLD BANK and its purpose is the purchase of two (2) Air Blowers designed according to API-618-STD with the following main characteristics:

- Design flow: 1.629 Kg/s
- Normal flow: 1.207 Kg/s
- Minimum flow: 0.804 Kg/s
- Fluid: air
- Suction pressure: atmospheric
- Discharge pressure: 1.5 Kg/cm² a (1st phase); 1.8 Kg/cm² a (2nd phase).

Bids will be received until three (3) p.m. of January 24th, 1995. Interested BIDDERS, from eligible countries, members of the WORLD BANK and Taiwan, China who have designed and fabricated at least one (1) equipment, with the characteristics similar to those described above, may obtain this bidding through the presentation of a bank deposit slip in the non-refundable amount of US\$ 300 (three hundred American dollars) to be made at Banco do Brasil S.A. Agência PETROBRAS - Rio (code 3100-1) current account N° 377.100-8 in the name of PETROBRAS/ADM. CENTRAL, or contact us at no expense at the following address:

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SERVIÇO DE MATERIAL - SERMAT
Av. República do Chile n° 66, 2° andar - sala n° 662
CEP: 20035-900 - Rio de Janeiro - RJ - BRASIL
Phone: (021) 534-1731 or 534-1745
Fax: (021) 534-3837 or 534-3838
Ref.: EDITAL N° 874-81-0019/94
At.: Coordenador da Comissão de Licitação

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DIVIDEND & INTEREST PAYMENTS

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Akzo Nobel FL1.50
Do. Brq. FL1.50
Aon \$0.32
Aroclor 0.6075p
Do. A NVig. 0.6075p
Argos 2.65p
Coca-Cola Am. 7% Bd. '96 \$381.25
Dolphin Packaging 1.7p
EW Fact 1.94p
For. & Col. Pac. Inv. Tst. 3%
Cv. Bd. 2000 Y3000.0
Helical Bar 2.75p
Housing Fin. 8% Db. '23 24.3125
JIB Grp. 2.5p
Kwik-Fit 1.7p
Linton Park 5p
MAI 5.8p
Mitsubishi Fin. 7% Sb. Nts. '07 \$387500.0
Pacific Dunlop A\$0.115
Standard Chart. Und. Prim. Cap. Nts. (Ser.2) \$284.17
Toshiba 4.05% Nts. '97 Y405000.0
Do. 4.8% Nts. '98 Y480000.0
Tor Inv. Tst. 4p
Do. Inc. 10p
Whatman 3.6p

TOMORROW

Abbott Labs \$0.19
Arjo Wiggins Appleton 2.65p
Australian Agricultural A\$0.10
Barclays 16% Un. Cap. Ln. 02/07 \$8.0
BBA 1.5p
Birmingham Dist. Council 11% Rd. '12 55.75
Brammer 4.5p
Burnside 15% Un. Ln. 07/12 \$7.5
Chase Manhattan \$0.40
Clinton Cards 1.6p
Colgate-Palmolive \$0.41

UK COMPANIES

COMPANY MEETINGS:
Ex-Landis, Harcourt House, 19, Cavendish Square, W. 11 00
Prestwich House, Station Hotel, Ayr, 12.00

BOARD MEETINGS:
Interim:
RT Capital Partners
St. James Place Capital
Wardle Stores

COMPANY MEETINGS:
Domestic & General Corp., Waterman & Lopham House, 15, St. Mary-at-Hill, E.C. 11.30
EPRA Dragon Ltd., Donaldson House, 97, Haymarket Terrace, Edinburgh, 12.00
Everest Foods, Goldsmith House, Wolverhampton, 10.30
Towry Law, Baylis House, Skoko Pogos Lane, Slough, 12.00

BOARD MEETINGS:
Interim:
British Empire Securities
Dixie (4)
Finchley Growth Ltd.
Securitized Endowment Contracts
Interim:
Crestlink
Crestlink
Crestlink
European Colour
Great Portland Estates

COMPANY MEETINGS:
Hambros
John Lusty
Marshall
Powers
Sims Food
St. James Place Capital
Syndicate Eng.

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TODAY

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Fairley 2.25p
Fiscal Props. 0.624p
For. & Col. Smaller Co's 6% Pf. 12.10
Forth Ports 3% Fd. Debt
T. 1.875
GESS 8.35% Gtd. Bd. '18 \$41.75
Hambros Inv. Tst. 5% Cm. Pf. 1.75p
Inter-Am. Dev. Bank 9% Ln. '15 \$4.875
Marsh & McLennan \$0.725
Parity 0.75p
SIG 2p
Scottish Am. Inv. 4% Ind. Db. 22.0
Treasury 12% Ln. '95 \$6.375

WEDNESDAY

November 16
Britannia Bldg. Scty. FRN '96 \$146.38
Britton 1p
Carnellia 14p
Catties 2.15p
China & Eastern Inv. \$0.07
CSC Inv. Tst. 1.5p
Nat West Bank Var. Rate Cap. Nts. '08 \$142.79
Quicks 2.25p
Rugby Estates 0.89p
Skeppbank Ser.B Und. Var. Rate Nts. \$145.35
Britannia Bldg. Scty. FRN '95 \$142.79
Burn Stewart 3.3p
Caradon 2.5p
Chase Manhattan FRN 2000 \$129.38
Dagenham Motors 2p

THURSDAY

November 17
Asda Property 0.75p

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Work harder, or not at all

Options involve risk and are not suitable for everyone. All investors should read Characteristics and Risks of Standardized Options, which can be obtained from your broker or the Philadelphia Stock Exchange.

WORLD BOND MARKETS: This Week

NEW YORK

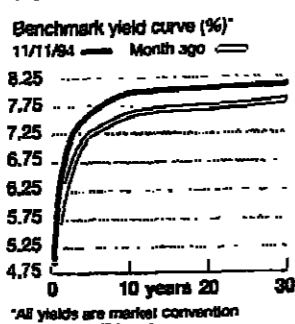
Richard Tomkins

The most important event in the US credit markets this week will be tomorrow's meeting of the Federal Reserve's policy-making committee, at which Fed officials will decide to what extent another round of monetary tightening is required.

Analysts think the starting point for the Fed's deliberations will be an increase of half a percentage point in its target for the Fed funds rate, pushing it up to 5½ per cent. Anything less – or indeed, nothing – would ring alarm bells, provoking fears that the Fed was not being tough enough on inflation.

Since a half-point increase is already discounted by bond prices, such an outcome could provoke little action. But the more tantalising question is whether the Fed will demonstrate its resolve – and, incidentally, provide some welcome relief for the dollar – by lifting the target rate by up to a full percentage point.

US



Any such move is likely to be greeted positively by the bond market, on the basis that it would signal a tough inflationary stance. The Fed apart, it is a busy week for economic data; but the figures that will be most closely watched are those for consumer prices, due out on Wednesday. Salomon Brothers forecasts that, excluding food and energy, the October year-on-year figure will remain at 3.0 per cent.

LONDON

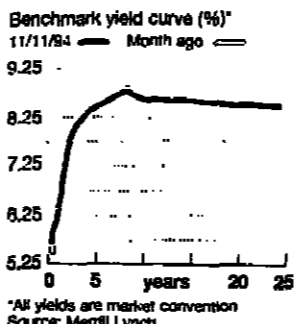
Philip Coggan

The gilts market faces a busy week, with traders awaiting a host of UK economic statistics and a potential rise in US interest rates.

The prices data will be the focus of most attention, with producer price details out today and consumer prices on Wednesday. The Bank of England expressed concern in its last inflation report that higher input prices (reflecting the rising costs of raw materials) might be passed through to producer output prices and then to the consumer.

With October's input prices expected to show an annual rise of 7 per cent, the gilts market might take inflationary fright. Retail price inflation is also expected to edge up in October, with the headline figure rising faster than the underlying, because of the recent rise in mortgage rates. Recent statistics have pointed to continued economic strength, and Ms Katy Peters, senior economist at Daiwa

UK



Europe, thinks third-quarter gross domestic product figures, released on Friday, will be revised up to 0.8 per cent growth from the previously estimated 0.7 per cent. Whatever the UK news, the gilts market will find it difficult to escape the influence of the US. Ms Peters thinks the market would respond better to a substantial rise in rates, say a full percentage point, which would show that the Fed is ahead of the game.

FRANKFURT

Andrew Fisher

Last week, it was the US mid-term elections. This week, it is the open market committee meeting of the US Federal Reserve.

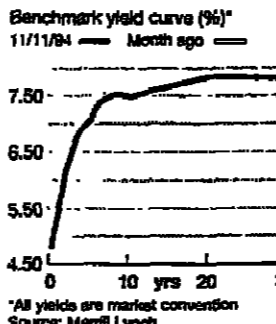
The first has consequences for the speed of interest rate rises next year, the second for rates in the immediate future. Both are at the centre of the German bond market's interest.

The Republican victory in Congress could accelerate the rise in US interest rates if tax cuts are passed. Mr George Magnus, S.G. Warburg's chief economist, told German investors. This would cause the Fed to act faster to ward off inflation.

"We could then see US interest rates rising more significantly," he said. He forecast a further two point rise in the federal funds rate in 1995 after tomorrow's expected move of half a point or more.

"There is uncertainty over when the Fed will really push rates up into the 7 per cent

Germany



area – that's effectively where we think they will go." Real interest rates are "much too low" against Germany's and Japan's. German rates are also expected to move up again next year, says Mr Stefan Schneider, Warburg's German economist. With a strong economic recovery and upward wage pressures, "the Bundesbank will step on the brakes for the first time early next year."

TOKYO

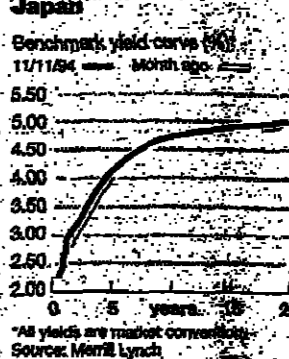
Emiko Terazono

Bond market investors have, at least for the moment, welcomed last week's appointment of Mr Yasuo Matsuoka, chairman of the Bank of Japan governor.

That Mr Matsuoka, a former vice-minister of finance, has had 10 years experience in the private sector has triggered hopes of lower interest rates.

Many investors expect him to be more sympathetic to banks' bad-loan problem and the sluggish demand for funds among corporations.

They hope that he will relax monetary policy, in contrast to his predecessor, Mr Yasuhiro Mieno, who is known for his efforts to burst the asset "bubble" of the late 1980s. Traders on the bond futures markets said the March 1995 futures contract had moved firmly since the announcement. High demand for funds among banks and companies, on the other hand, is expected



to limit any rise in bond prices. Banks looking to raise year-end funds are expected to turn to the two-month money markets. Financial institutions are avoiding funding in the three-month certificate of deposit market, their usual source of capital, since they want to avoid a rise in the short-term prime lending rate, which is linked to three-month CD rates, when leading is stagnant.

Capital & Credit

Bears look for aggressive move by the Fed

All eyes are on the Federal Reserve now as bond traders wait to see how aggressive the central bank is willing to be in tackling inflationary pressures in the economy.

News last week that the producer price index fell by 0.5 per cent in October – analysts had expected a 0.1 per cent increase – did little to change the opinions of those economists who believe the Federal Reserve will boost the federal funds rate target by at least 50 basis points, to 5½ per cent, at its open market committee meeting tomorrow.

Analysts say this anti-inflationary stance should cheer the bond market, but most believe investors have already accounted for such a rise.

If the Fed decides not to act, however, the market could take a serious tumble. Mr John Lipsky, chief economist at Salomon Brothers says: "Inaction would be a significant negative for the market as it would fly in the face of recent data that the economy is above trend, instead of decelerating, as the Fed said it had expected."

The Salomon economist is one of a number on Wall Street who believes inflation is a bigger threat than the decrease in producer prices would indicate, because declining car and energy prices within the producer price index masked a 0.3 per cent increase in intermediate (partially-processed) goods.

He believes the Fed might well increase the interest rate target to 5½ per cent in order to "convey immediately some what more aggressive action and suggest that more action would come soon". Mr Allen Sinai, chief global economist at Lehman Brothers, believes a full point increase would be the best way to put the brake on inflation, but does not see this as likely in the absence of clear signs of dangerously resurgent inflation.

The key to managing inflation is timing, says Mr Sinai. "The game is to prevent inflation from picking up, but by the time it is accelerating and the producer and consumer price indices are picking up, I believe it is too late to prevent the inflationary process from getting out of hand."

He believes the Fed is attempting to act early and moderately to prevent inflation. "I regret that members of the central bank have done so little to explain to the public what they are doing and why."

However, not all economists are so worried by inflation. Mr Robert Brusca, chief economist at Nikko Securities, believes the bond market is reacting fearfully to a phantom of inflation. By his calculations, increases in commodity prices have been nearly wiped out by decreases in durable goods labour costs, which he puts at down 5.2 per cent from the same period last year.

"People have a tendency to emphasise things they see a lot," he says. "You see commodity prices every day, labour only comes out four times a year."

This is the only explanation Mr Brusca sees for the bearish mood exhibited by the market last week.

Markets were buoyed only for the briefest of moments on Thursday morning by the positive producer price figures

before falling by ½ to 92½ late in that session, which was the last of the week because the market was closed on Friday for the Veterans' Day holiday.

"On the one hand I have to say this is crazy," Mr Brusca says of Thursday's extremely volatile session. "On the other, you have to say people are sceptical that inflation can stay low."

Mr Brusca worries that overly tight monetary policy will depress the economy next year. While others ask whether a 50 basis point increase in rates may not be enough, Brusca turns the query around: "The question is: is 50 points too much?" he says.

Certainly, traders will now be looking to Wednesday's release of consumer price information for more clues about inflationary pressures.

Uncertainty about the impact of strong Republican gains in last Tuesday's mid-term elections will also play out in the markets.

Initially, news that the party would control both houses of Congress sparked a rally but later, comments by Republican

leaders that they planned to decrease taxes and increase defence spending caused consternation and helped push markets down.

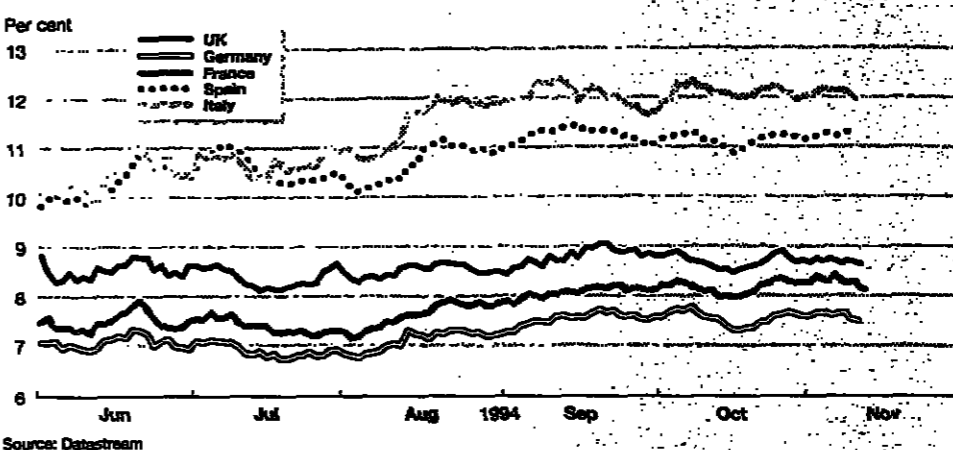
Some analysts fear that gridlock between the Republican Congress and Democratic president could hurt the value of the dollar and hit bonds by deterring foreigners from investing in US instruments, but few are willing to predict the long-term effect of divided government.

In addition to promising more tax cuts and defence spending, the Republicans have pledged to work toward a balanced budget.

Salomon's Mr Lipsky believes the debate over whether to approve the Uruguay Round agreement of the General Agreement on Tariffs and Trade will provide an important indication of future relations between the Congress and the executive. But he adds, "In the near-term, the defining events are going to be economic fundamentals and monetary policy."

Lisa Branstetter

10-year benchmark bond yields



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.00	1.75	4.50	6.40	7.50	5.75
Overnight	4.51	2.25	4.51	5.25	7.50	5.00
Three month	5.38	2.51	5.08	5.45	8.45	5.95
One year	6.39	2.75	5.45	6.20	9.85	7.25
Five year	7.69	4.03	7.05	7.71	11.77	8.31
Ten year	8.00	4.71	7.46	8.19	11.90	8.87

(1) France-Repo rate. (2) UK-Bank rate. Source: Reuters.

US TREASURY BOND FUTURES (CST) \$100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	98-17	98-02	-0-17	98-20	98-01	622,083	383,900
Mar	95-28	95-14	-0-17	95-29	95-13	11,825	45,820
Jun	95-10	94-27	-0-17	95-10	94-27	277	11,748

FINANCIAL TIMES

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International

Italy prepares to re-enter the fray

Italy looks set to be in the spotlight over the next few days in the international bond markets. Political uncertainty, which has been worrying the bond markets for much of the year, has been highlighted by this weekend's demonstrations in Rome against the budget proposals of Mr Silvio Berlusconi's government.

A parliamentary vote of confidence, called by the government on Friday and scheduled to take place today, will provide a further immediate focus while debates on the budget are expected to continue until the end of the year.

In addition, Italy is widely expected to re-enter the euro-market soon, with a 7400bn eurobond, in tranches of three-, 10- and 20-year maturities, reported to be in the offing. That deal, which has not been confirmed, would be consistent with the government's long-term strategy of broadening its investor base and lengthening the maturity profile of its debt.

After making considerable headway in 1992 and 1993, the government has run into problems. On top of a general disenchantment with bonds generally, triggered by the February increase in US interest rates, overseas investors have been particularly worried by Italy's debt, which is expected to reach 128 per cent of GDP in 1995, and its fiscal deficit.

Since May, bond prices have fallen and yields risen, both in absolute terms and relative to the German bund. The yield spread between the 10-year Italian bond and the bund narrowed from more than 850 basis points in early 1993 to fewer than 300 points earlier this year.

Since May, however, it has climbed steadily, hovering around 450 basis points in trading over the past two months.

Foreigners have led the sell-off, with overseas investors accounting for less than 10 per cent of the overall debt compared with about 15 per cent last year. Analysts also suggest the average maturity of the debt – extended by six months to three years and five months since the end of 1992 – may have been shortened since the summer because the treasury has been forced to rely on shorter-term paper to cover its financing needs.

After an initial welcome for Mr Berlusconi's election, the euphoria has waned, says Mr Jose Luis Alzola, analyst with Salomon Brothers.

The delay in publication of the government's financial programme in July contributed to scepticism, while in August an increase in the discount rate from 7 per cent to 7.5 per cent followed selling pressure on bonds and on the lira.

Investors have become concerned that measures to reduce

the fiscal deficit contained in the 1995 budget proposals, currently before parliament, are insufficiently radical and that political tensions may interfere with the budget's approval. "The budget relies excessively on one-off measures, thereby postponing more significant action for subsequent years," insists Mr Alzola.

"The markets are pretty sceptical. Longer-term, the risk remains that persistently high fiscal deficits will trigger further currency weakness and high inflation," he adds.

Inflation reached a 25-year low of 3.6 per cent in the summer, but the markets are still worried or, in the words of Mr Richard Benzle, analyst with UBS, "deeply spooked" by the prospect of rising prices.

"It is hard to get bullish," agrees Mr Graham McDevitt, bond strategist with Paribas Capital Markets, who says that part of the problem is the character of Italy's political process. "It is so drawn out, so painful," he says of the discussions surrounding the 1995 budget. "The budget will be a focus for the markets until the end of the year."

There are grounds to suggest that these fears are overdone. Worries that the debt burden will directly increase pressure on interest rates – by increasing government pressure on a limited pool of savings – may be exaggerated.

This is partly because the government is no longer so dependent on the domestic markets because of changes both in the international market and in Italy's own financial system.

Italy's capital market is now much more open and integrated with the rest of the world, notes Mr Giorgio Radaelli, senior economist with Lehman Brothers International. He suggests that the emphasis on debt as a percentage of gross domestic product is misplaced and that the ratio between debt and private financial wealth is a more appropriate benchmark.

"What drives real yields down in the long run is the ratio between debt and private financial wealth. Prospects for this ratio are neutral to good," he says.

Also, Italy has "so far under-utilised foreign currency issues as a source of funds," he explains. Italy followed up a 7400bn eurobond issue in January, co-led by J.P. Morgan and Daiwa, with a \$4bn five-year deal in D-Marks, dollars and yen in July.

Even after those issues, foreign currency debt still amounted to less than 4 per cent of total debt; further grounds, perhaps, for the markets to believe that a new euro issue is in the pipeline.

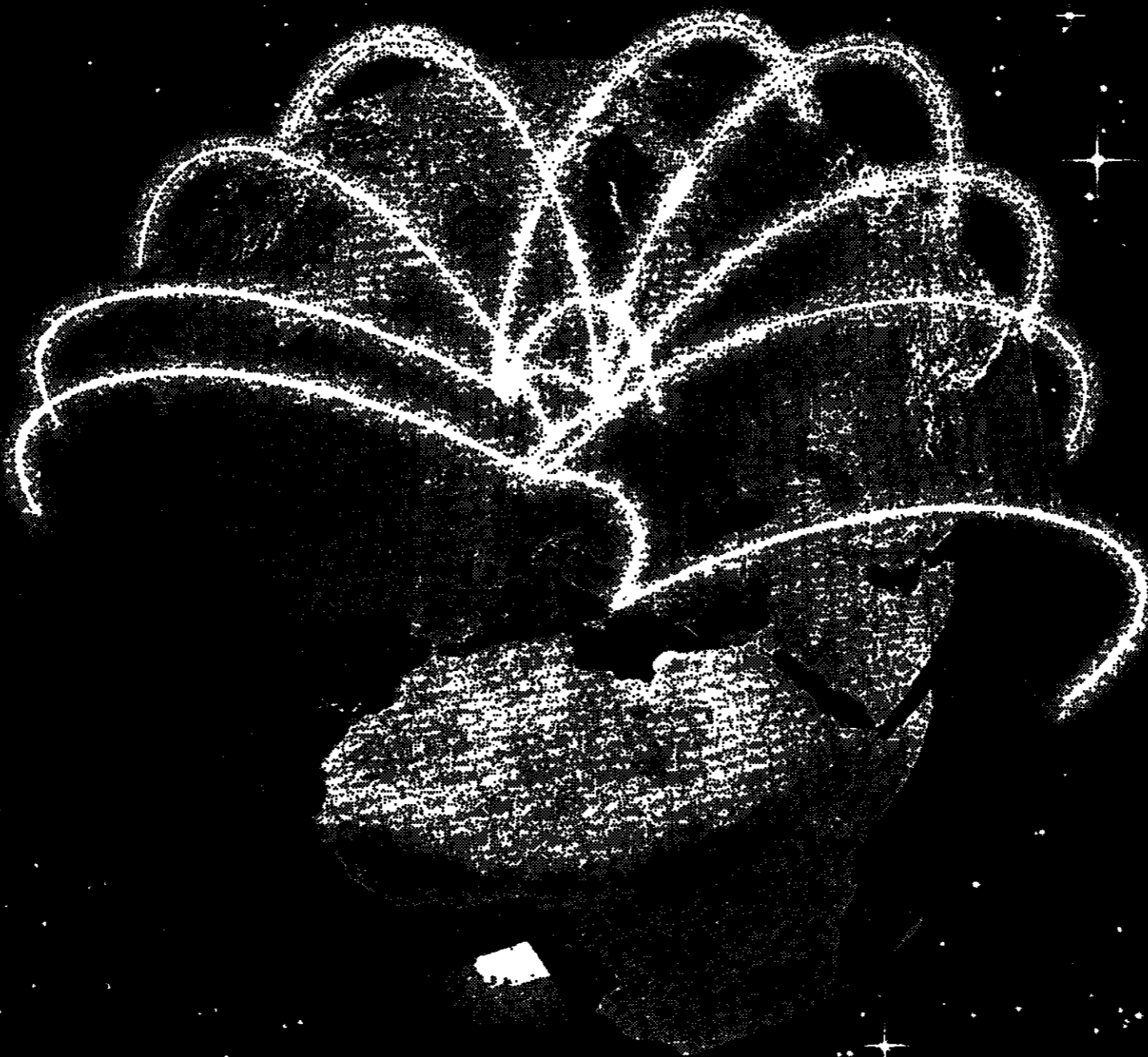
Richard Lapper

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bps	Book runner
US DOLLARS							
Bank South Australia	250	Nov 1999	80	98.780	7.10	-	J.P. Morgan
Co. of Garco (Brazil) Ltd.	150	Dec 1998	7.25	99.850	6.50	-	BNP
Grupo Industrial Durango	100	Nov 1999	80	100	7.10	-	BNP
Union Bank of Switzerland	120	Dec 98	7.00	99.611	7.216	-	BNP
TSB S.A.	150	Jul 1999	80	98.088	-	-	BNP
Haitian Bank	200	Nov 99	80	100	-	-	BNP
Haitian Bank Funding Corp	200	Nov 1999	80	98.274	7.107	+18 (85%-95%)	BNP
SBC Finance Guaranty	100	Feb 2000	80	100	-	-	BNP
North Lynch & Co.	100	Feb 2000	80	100	-	-	BNP
Confiance	75	Nov 1997	11.25	98.088	-	-	BNP
Republic of Austria	150	Jan 1997	7.25	100	-	-	BNP
Norddeutsche Landesbank	150	Dec 1998	7.25	98.781	7.287	+20 (85%-95%)	BNP
Auton Argentina de Periodo	100	Dec 1998	11.00	98.088	11.73	+112 (70%-90%)	BNP
Banco Nacional	80	Nov 1997	11.00	98.120	11.20	+285 (74%-87%)	BNP
Republika Nederland	100	Dec 1987	4.00	100	-	-	BNP
YEN							
World Bank	200bn	Dec 2004	4.75	6.404	4.825	-	Morgan Stanley
Haitian Bank	100	Nov 1999	80	98.781	7.10	-	BNP
Auton Argentina de Periodo	100	Dec 1998	11.00	98.088	11.73	+112 (70%-90%)	BNP
Banco Nacional	80	Nov 1997	11.00	98.120	11.20	+285 (74%-87%)	BNP
STERLING							
European Bank	200	Dec 2000	8.75	98.088	9.010	+15 (85%-95%)	BNP
US Southern Bell	100	Dec 1998	8.0	98.781	8.148	+25 (85%-95%)	BNP
Portugal BSN	100	Dec 1997	8.0	98.088	-	-	BNP
ITALIAN LIRA							
European Investment Bank	400bn	Nov 1996	7.25	86.193	8.639	-	BNP
CANADIAN DOLLARS							
Bank Canada	180	Dec 1998	8.25	100.000	8.250	-	BNP
US Southern Bell	100	Dec 2001	9.25	98.088	9.250	-	BNP
SNCF	150	Dec 1998	8.0	100.768	7.801	+10 (74%-95%)	BNP
NEW ZEALAND DOLLARS							
Bank of New Zealand	100	Dec 1998	8.0	100.768	7.801	+10 (74%-95%)	BNP
AUSTRALIAN DOLLARS							
Commonwealth Bank of Australia	100	Dec 1997	10.125	101.13	8.994	-	BNP
NZ Int. Finance	150	Nov 1998	10.50	101.70	10.33	+8 (10%-95%)	BNP
Asia-Pacific Finance	75	Dec 1999	10.75	101.775	10.28	-	BNP
Asia-Pacific Finance	100	Dec 1997	10.125	101.41	8.922	+15 (85%-95%)	BNP
Council of Europe	100	Dec 1996	8.625	101.68	8.922	-	BNP
Export Finance & Insurance	100	Dec 2004	11.0	101.55	10.87	-	BNP
SWISS FRANKS							
UBS	150	Dec 2001	5.625	102.30	5.264	-	BNP
UBS	100	Nov 1998	5.625	102.30	5.264	-	BNP
European Investment Bank	200	Dec 2002	5.625	102.75	5.198	-	BNP
City of Vienna	200	Dec 1997	5.625	102.75	5.198	-	BNP
Toyota Motor Credit Corp	125	Dec 1998	5.50	102.65	4.757	-	BNP
PESETAS							
Republic of Argentina	100	Dec 1997	12.00	101.00	12.38	-	BNP
LUXEMBOURG FRANKS							
Republic of Ireland	2.0bn	Jan 2000	8.00	102.65	7.520	-	BNP

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EQUITY MARKETS: This Week

NEW YORK

Patrick Harverson

Testing time in prospect for investors

The stock market this week faces one of its most critical tests in several months. First, investors and traders will probably have to withstand an interest rate increase by the Federal Reserve, whose open market committee meets tomorrow to decide whether to tighten monetary policy for the sixth time in 10 months.

Second, the market will have to cope with more pronouncements from Republican leaders in Washington about what they plan to do now they have a majority in both houses of Congress. Some reckless talk from Republican leaders has unsettled the market at the end of last week - talk of big tax cuts (including the outright elimination of income tax) and increases in defence spending conjured up unwelcome images of ballooning deficits and rising interest rates.

Euphoria over the elections should begin to die down this week, and the Republican party is likely to present a more carefully-considered agenda for the new Congress in the coming days.

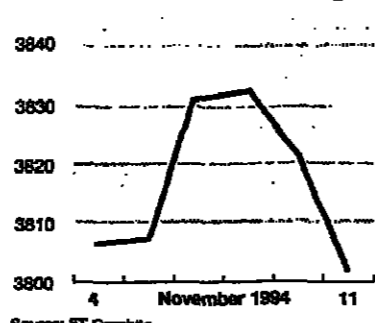
But Wall Street remains divided over whether the Republicans' mid-term triumphs will be good or bad for shares.

Among those who see a brighter future under a Republican Congress are Mr Joseph Liro and Mr Timothy Hiseock, economists with S.G. Warburg.

Pronouncing the Clinton agenda dead, they say proposals put forward by Republicans since the election - measures to cut taxes, resist a minimum wage increase and reduce government regulation - are all positive for stocks.

Others disagree. Mr David Shulman,

Dow Jones Industrial Average



Source: FT Graphite

chief strategist at Salomon Brothers, says euphoria over the victory of the more market-oriented Republicans will soon give way to a variety of concerns, such as the possibility that a Republican-controlled Congress will block the passage of free trade legislation, and the possibility that aggressive tax-cutting measures could unsettle a bond market worried about the deficit and an overheating economy. The outlook for share prices, concludes Mr Shulman, is bleak, and late last week he was recommending clients to sell into any post-election rally.

That rally, however, never really materialised, and probably never will. Share prices did jump sharply the morning after the mid-term election, but they soon fell back, and the market ended the week nursing losses.

How the equity market will respond to another monetary tightening depends on the extent of any rate increase. Most analysts believe the Fed will raise its target for the federal funds rate from 4% to 5% per cent. Any increase larger than 50 basis points could spell trouble for share prices, because it would deepen fears that the economic recovery and corporate earnings growth would be choked off if interest rates rose too far too fast.

LONDON

Steve Thompson

Slowdown in trading makes for caution

A growing mood of bullishness towards the UK equity market at the close of last week distinctly cooled as trading ground to a halt on a dismal quiet Friday afternoon.

Formerly optimistic about short-term prospects after the mid-week rally following the US elections, some dealers now view the market with extreme caution in the short term, worried about the recent lack of business and the chances of a big sell-off on Wall Street. There is, however, increasing optimism for the rest of the year.

But before UK equities attempt to reach some of the more realistic year-end forecasts, they have to face a significant hurdle in the form of the US Federal Reserve open market committee meeting in Washington tomorrow.

Forecasts that the US Fed funds rate could be increased by up to a full point were scaled back to 50 basis points after last week's economic news, which indicated a slowing of the economy.

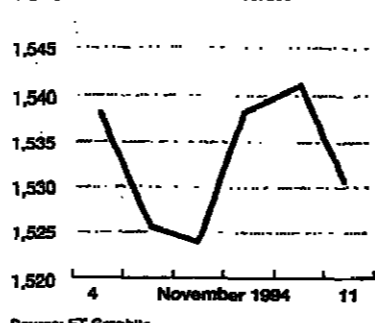
Any less or any more than that may be interpreted as bad news for markets.

Some London market strategists argue that, US influences apart, there are many good reasons for buying UK stocks. They say London traditionally enjoys a pre-Christmas run and that this year should be no exception.

The Budget, scheduled for November 29, could cause problems but again most analysts are looking for a neutral outcome.

Mr Edmund Warner of Kleinwort Benson, who expects a year-end FT-SE 100 standing at 3,900, says: "Rarely can a budget have been approached with as

FT-SE All-Share Index



Source: FT Graphite

little investor concern: prudence and rectitude have been the chancellor's watchwords since assuming office and, February's rate cut apart, he has stuck to the script." Mr Warner adds a note of caution, however, pointing out that "complacency is a dangerous state of mind and investors should not assume that November 29 will be without either risk or opportunity."

NatWest Securities, in its Equity Market Analysis for November, expects a cautious budget "which will underpin rising credibility in the UK". The securities house is in the bullish camp regarding the end-year rally and maintains a year-end forecast of 3,400. It highlights the favourable domestic factors: profits upsurge; strong cash flow which funds 6 per cent real dividend growth; and rising sterling and gilt credibility.

Mr Richard Jeffrey at Charterhouse Tilley Securities insists there is room for the equity market to move 200 points higher before the year-end.

The market was satisfied with last week's important company trading statements, which included double-digit dividend increases from Marks and Spencer, British Airways and BAA, and this week should see another cluster of big pay-outs.

International offerings

Honeymoon may be over for French privatisations

On Wednesday morning, officials from the French economy ministry will announce the results of the public offer for Renault's flotation.

They will do so with mixed emotions. The issue is set to be oversubscribed. But the motor group, one of the stars of the French public sector, has not seen the strength of demand enjoyed by previous sales in France's ambitious privatisation programme.

Most industry analysts expect the partial privatisation to draw between 1.5m and 2m private investors, compared with an average of between 2.5m and 3m for the previous four big privatisation sales.

Last-minute buying may push up the number but an important question is emerging: Are French privatisations losing their pulling power?

The answer depends on where one looks. While private investors have held back, institutional investors - comprising the bulk of the foreign interest in French privatisations - have rushed to buy Renault shares. The institutional tranche, less than 40 per cent of the overall issue, has been oversubscribed a healthy 15 times.

For individuals and institutions alike, however, future French privatisation issues are likely to be greeted with an

increasingly sober response.

For the French government, and the investment banks which place the privatisation shares, therefore, the going may become more difficult. "The honeymoon could be over," says Mr Michel Fleuriot, president of Merrill Lynch Finance in Paris.

There are several reasons. The depressed stock market, which has seen the CAC-40 index of leading shares fall by almost 20 per cent since its February peak, is one factor that has weighed on Renault and which will continue to complicate privatisation issues. Of the previous four big privatisations, only Banque Nationale de Paris is trading above its issue price.

On the institutional side, such factors are compounded by the international competition for investors' funds. "Renault was a dream sale, with people approaching us," says one banker in London. "But institutions have a lot of options coming up next year with Italian and Scandinavian privatisations coming to market."

In spite of these obstacles, the French government and its investment bank advisers are sanguine. Mr Edmond Alphandery, the economy minister, argues that the strength of demand for the initial privatisation

has been abnormal, and that momentum can be maintained in the privatisation drive.

Many observers agree. Mr Fleuriot at Merrill Lynch claims that there remain a number of potentially attractive assets in the public sector, citing Usinor Sauter, the steel group, as a company which will benefit from an upturn in the industry cycle. But he argues that the appeal of privatisation issues from now on will be on a case-by-case basis.

Most are expected to draw continued competition from investment banks seeking a slice of the privatisation business. The placings, if not the advisory roles in the issues, have proved profitable.

"The commission rates have totalled about 3 per cent of the amount raised, which has created a fairly lucrative business," says one foreign banker involved in some of the issues.

A counterpart at another pricing investment bank says that "Renault will remain the key." "Renault was nicely priced, at about nine times prospective earnings," he says. "So long as the government remains realistic about its pricing then I don't see any major problems."

John Ridding and Martin Brice

OTHER MARKETS

STOCKHOLM

Equities face a volatile week, but whether they move up or down will depend on the outcome of yesterday's referendum on EU membership and nine-month figures from several big companies, writes Christopher Brown-Humes.

Two of the industrial heavyweights, Volvo and Ericsson, present their figures tomorrow and on Thursday respectively.

In Ericsson's case, expectations are running high due to the spectacular growth in sales of the group's cellular products and a strong set of eight-month figures from its Finnish rival, Nokia.

Goldman Sachs in London is expecting nine-month profits of SEK2.5bn, up from SEK1.8bn a year ago, and full-year profits of SEK5.5bn.

AssiDomän and SCA, two of the leading forestry groups, will also announce figures. With the pulp and paper sector in a clear upturn, they are expected to be strong.

SCA, which reports on Friday, is expected to disclose a profit of around SEK1.6bn. The main interest will be in how its Mölnlycke hygiene unit is weathering increasing competition in the nappies (diapers) market.

Analysts say that whatever the outcome of the referendum, concerns about the state of Sweden's finances will

continue to affect equities via the bond market. Another cloud on the horizon for the export-orientated multinationals is the strengthening krona, which could harm next year's earnings significantly if the trend continues.

AMSTERDAM

The final price for EVC International, the PVC maker which is being floated off by Enichem of Italy and ICI of the UK, is expected to be set today. On Friday, the market fields the third-quarter results from the paper and packaging group, KNP BT.

Hoare Govett expects earnings per share of 63 cents

for the quarter, compared with a loss of 11 cents in the year earlier period and a gain of 71 cents in the second quarter of 1994.

ZURICH

Today brings Holderbank's autumn news conference. Analysis and the cement company itself have anticipated a happy event; on November 4, Holderbank justified analysts' earnings upgrades by forecasting that consolidated net income for 1994 would rise by 37 per cent, sharply above even the best expectations.

Also today, Electrowatt hosts its news conference on its business this year; last June

the electric power generation and engineering group forecast that last year's record net profits should be "almost equalled".

HELSINKI

The subscription period is expected to begin today for the FM2bn share issue by Kansallis-Osake-Pankki (KOP), Finland's leading commercial bank.

MILAN

Riunione Adriatica Sicurtà (RAS), the Italian insurer controlled by Allianz of Germany, is to launch its L2,000m capital increase tomorrow.

HONG KONG

Investors in the Hong Kong market are likely to stay on the corporate front, turnover is likely to remain thin - it was only HK\$1.7bn last Thursday, one of the quietest days of the year. Takeover rumours will continue to haunt second and third liners.

Asian markets are expected to be weaker ahead of any decision on US interest rates. Market speculation is that the FOMC will increase interest rates by up to 75 basis points, and Hong Kong rates will subsequently be pushed upwards.

If the rise in US rates is kept to 50 points, brokers reckon Hong Kong stocks could be in for a slight rebound. If the rise is 75 points, trading is expected

to remain in a narrow range, with investors taking their cue from Wall Street.

With little news on the corporate front, turnover is likely to remain thin - it was only HK\$1.7bn last Thursday, one of the quietest days of the year. Takeover rumours will continue to haunt second and third liners.

TOKYO

James Capel's technical analysis team last week said large-scale investment decisions were not taking place in Japan: "the largest percentage movements are currently in stocks like Sega and Nintendo."

However, this week investors

have another opportunity to relent. Economic data include trade figures and wholesale prices tomorrow, and money supply on Friday.

The results list takes in Matsushita Electric Industrial tomorrow and East Japan Railway on Wednesday; on Thursday, Sony reports, with a clutch of trading houses, including Mitsui, Mitsubishi, Sumitomo and Marubeni.

In a review of trading houses Baring Securities says the sector should be aggressively overweighted in the light of recent strong moves in world commodity markets, and the beginnings of recovery in the domestic economy.

Compiled by William Cochrane

CONTRACTS & TENDERS

UNITED NATIONS CONFERENCE ON HUMAN SETTLEMENTS (HABITAT II)
ISTANBUL, 3-14 JUNE 1996

Expressions of Interest Invited

International Trade Fair on Housing and Construction Technologies and Human Settlements

- The Prime Ministry of the Republic of Turkey, Housing Development Administration (HDA), invites qualified firms to express their interest in responding to a Request for Proposal (RFP) to undertake a contract for the organization of an International Trade Fair in Istanbul, Turkey.
- As proposed by the Preparatory Committee for Habitat II, the Trade Fair will take place in conjunction with the Second United Nations Conference on Human Settlements (Habitat II) which will be held in Istanbul during 3-14 June 1996.
- The theme of the Trade Fair shall be broad based, covering various disciplines related to housing and construction industries and human settlements, where innovative, appropriate, low-cost and environmentally-sound products, services and technologies are presented.
- Qualifications of interested firms will include international experience in the organization and management of trade fairs, strong financial standing and international/local business contacts. The Housing Development Administration strongly encourages interested firms to associate with international/local counterparts.
- Interested firms may obtain a copy of pre-qualification documents which include:
 - Information and Documents Requested from the Interested Firms
 - Work Description for the Organization and Management of the Trade Fair

This material is available from the HDA (may be picked up in person or transmitted via fax) through the Habitat II Project Coordination Unit in Istanbul upon payment of a non-refundable fee of US \$ 50. The address and fax number are provided below:

T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı, Habitat II Proje Koordinasyon Birimi
7. Mahalle 1-7B, No. 12 Ataköy 34510 İstanbul - Turkey Fax No. (90-212) 559 05 09

The Bank Address and Account Number where wire transfers should be made is as follows:
T.C. Ziraat Bankası Akay Şubesi - Bakankliklar Ankara - Turkey
Account Title: Habitat II Proje Koordinasyon Birimi, Account No. 304001276645-6

- The qualified firms are invited to send their Expressions of Interest with the required information and documents attached, in the English language, to the above address. All applications received by 1 December 1994 will be considered and evaluated by the HDA.
- All the firms will be notified by 12 December 1994 and the short-listed firms will be asked to respond to an RFP.

Prices for electricity delivered for the purposes of the electricity trading and settlement arrangements in England and Wales.			
1/2 hour	purchase	sell	pool
ending	CAP/Wh	CAP/Wh	CAP/Wh
0000	8.57	8.10	8.10
0100	24.37	8.08	8.08
0130	28.57	8.15	8.15
0200	28.54	8.07	8.07
0230	8.87	8.00	8.00
0300	9.21	8.00	8.00
0330	8.20	8.00	8.00
0400	9.19	8.09	8.09
0430	8.12	8.12	8.12
0500	8.10	8.12	8.12
0530	8.10	8.12	8.12
0600	8.10	8.12	8.12
0630	8.10	8.12	8.12
0700	8.10	8.12	8.12
0730	8.10	8.12	8.12
0800	8.11	8.17	8.17
0830	8.12	8.20	8.20
0900	8.12	8.20	8.20
0930	8.12	8.20	8.20
1000	8.22	8.20	8.20
1030	8.22	8.20	8.20
1100	25.45	25.45	25.45
1130	25.45	25.45	25.45
1200	25.45	25.45	25.45
1230	25.45	25.45	25.45
1300	25.45	25.45	25.45
1330	25.45	25.45	25.45
1400	25.45	25.45	25.45
1430	25.45	25.45	25.45
1500	25.45	25.45	25.45
1530	25.45	25.45	25.45
1600	25.45	25.45	25.45
1630	25.45	25.45	25.45
1700	25.45	25.45	25.45
1730	25.45	25.45	25.45
1800	25.45	25.45	25.45
1830	25.45	25.45	25.45
1900	25.45	25.45	25.45
1930	25.45	25.45	25.45
2000	25.45	25.45	25.45
2030	25.45	25.45	25.45
2100	25.45	25.45	25.45
2130	25.45	25.45	25.45
2200	25.45	25.45	25.45
2230	25.45	25.45	25.45
2300	25.45	25.45	25.45
2330	25.45	25.45	25.45
2400	25.45	25.45	25.45

THE DAVID THOMAS PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break to explore a theme in the fields of industrial policy, third world development or the environment.

The theme for the 1995 prize, worth not less than £3,000, is: DOES FREE TRADE THREATEN THE ENVIRONMENT?

Applicants, aged under 35, of any nationality, should submit up to 1000 words in English on this subject, together with a brief c.v. and a proposal outlining how the award would be used to explore this theme further.

The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

CLOSING DATE JANUARY 6 1995

APPLICATIONS TO:

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THE FINANCIAL TIMES (L)
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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 11	Closing mid-point	Change on day	5 day/10 day	Day's bid/ask	One month	Three months	One year	Bank of England
Europe								
Austria (Sch)	17.2102	-0.0487	0.04	240	17.2136	17.2031	17.2119	0.3
Belgium (Bfr)	50.2896	-0.1577	5.06	428	50.2896	50.2896	50.2896	0.7
Denmark (DKr)	9.5477	-0.0034	412	542	9.5470	9.5410	9.5450	0.3
France (FFr)	4.4054	-0.0011	0.11	0.08	4.4103	4.4103	4.4103	0.3
Germany (DM)	2.4438	-0.0008	425	405	2.4438	2.4438	2.4438	0.3
Greece (Dr)	376.552	-1.544	245	889	377.491	376.241	376.241	0.2
Ireland (Ir)	1.0173	-0.0018	187	178	1.0194	1.0155	1.0171	0.2
Italy (Lira)	2504.10	-5.99	275	545	2512.13	2502.88	2508.7	-2.7
Luxembourg (Ffr)	50.2996	-0.1577	5.06	428	50.2896	50.2896	50.2896	0.7
Netherlands (Gld)	2.7405	-0.0009	391	419	2.7405	2.7405	2.7405	0.3
Norway (Nkr)	10.6829	-0.0005	788	888	10.6829	10.6829	10.6829	0.3
Portugal (Esc)	203.588	-0.561	964	335	203.588	203.588	203.588	0.3
Spain (Ptas)	166.663	-0.435	153	682	166.663	166.663	166.663	0.3
Sweden (Skr)	11.8171	-0.0742	0.04	220	11.8171	11.8171	11.8171	0.3
Switzerland (Sfr)	2.0484	-0.0008	470	482	2.0484	2.0484	2.0484	0.3
UK (Sterling)	1.2840	-0.0035	832	848	1.2875	1.2830	1.284	0.4
USA (Dollar)	1.919048	-0.0035	832	848	1.2875	1.2830	1.284	0.4
Asia								
Argentina (Peso)	1.5995	-0.0038	930	999	1.6018	1.5974	1.6018	0.3
Brazil (Cruzeiro)	1.3395	-0.0054	384	405	1.3441	1.3390	1.3441	0.3
Canada (Cdn)	1.5502	-0.0001	650	648	1.5502	1.5502	1.5502	0.3
China (Yuan)	8.2794	-0.0002	900	907	8.2794	8.2794	8.2794	0.3
India (Rupee)	1.5984	-0.0002	900	907	1.5984	1.5984	1.5984	0.3
Japan (Yen)	1.5984	-0.0002	900	907	1.5984	1.5984	1.5984	0.3
Malaysia (Ringgit)	2.1294	-0.0001	235	273	2.1294	2.1294	2.1294	0.3
Hong Kong (HK\$)	12.3604	-0.0196	589	639	12.3604	12.3604	12.3604	0.3
India (Rupee)	15.9377	-0.0047	165	506	15.9377	15.9377	15.9377	0.3
Indonesia (Rp)	159.377	-0.0001	521	551	159.377	159.377	159.377	0.3
Japan (Yen)	159.377	-0.0001	521	551	159.377	159.377	159.377	0.3
Malaysia (Ringgit)	4.0895	-0.0003	878	912	4.0895	4.0895	4.0895	0.3
New Zealand (NZ\$)	2.5758	-0.0005	732	785	2.5758	2.5758	2.5758	0.3
Philippines (Piso)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
Saudi Arabia (Riyal)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
Singapore (S\$)	2.5758	-0.0005	732	785	2.5758	2.5758	2.5758	0.3
S Africa (Rand)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
South Korea (Won)	11.8171	-0.0742	0.04	220	11.8171	11.8171	11.8171	0.3
Taiwan (NT\$)	11.8171	-0.0742	0.04	220	11.8171	11.8171	11.8171	0.3
Thailand (Baht)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
US Dollar (Dollar)	1.2840	-0.0035	832	848	1.2875	1.2830	1.284	0.4

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 11	Closing mid-point	Change on day	5 day/10 day	Day's bid/ask	One month	Three months	One year	JP Morgan
Europe								
Austria (Sch)	10.7645	-0.0148	620	670	10.7550	10.7490	10.7645	0.7
Belgium (Bfr)	31.4500	-0.1577	5.06	428	31.4500	31.4500	31.4500	0.7
Denmark (DKr)	9.5477	-0.0034	412	542	9.5470	9.5410	9.5450	0.3
France (FFr)	4.4054	-0.0011	0.11	0.08	4.4103	4.4103	4.4103	0.3
Germany (DM)	2.4438	-0.0008	425	405	2.4438	2.4438	2.4438	0.3
Greece (Dr)	376.552	-1.544	245	889	377.491	376.241	376.241	0.2
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Luxembourg (Ffr)	50.2996	-0.1577	5.06	428	50.2896	50.2896	50.2896	0.7
Netherlands (Gld)	2.7405	-0.0009	391	419	2.7405	2.7405	2.7405	0.3
Norway (Nkr)	10.6829	-0.0005	788	888	10.6829	10.6829	10.6829	0.3
Portugal (Esc)	203.588	-0.561	964	335	203.588	203.588	203.588	0.3
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Switzerland (Sfr)	2.0484	-0.0008	470	482	2.0484	2.0484	2.0484	0.3
UK (Sterling)	1.2840	-0.0035	832	848	1.2875	1.2830	1.284	0.4
USA (Dollar)	1.2840	-0.0035	832	848	1.2875	1.2830	1.284	0.4
Asia								
Argentina (Peso)	1.5995	-0.0038	930	999	1.6018	1.5974	1.6018	0.3
Brazil (Cruzeiro)	1.3395	-0.0054	384	405	1.3441	1.3390	1.3441	0.3
Canada (Cdn)	1.5502	-0.0001	650	648	1.5502	1.5502	1.5502	0.3
China (Yuan)	8.2794	-0.0002	900	907	8.2794	8.2794	8.2794	0.3
India (Rupee)	1.5984	-0.0002	900	907	1.5984	1.5984	1.5984	0.3
Japan (Yen)	159.377	-0.0001	521	551	159.377	159.377	159.377	0.3
Malaysia (Ringgit)	4.0895	-0.0003	878	912	4.0895	4.0895	4.0895	0.3
New Zealand (NZ\$)	2.5758	-0.0005	732	785	2.5758	2.5758	2.5758	0.3
Philippines (Piso)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
Saudi Arabia (Riyal)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
Singapore (S\$)	2.5758	-0.0005	732	785	2.5758	2.5758	2.5758	0.3
S Africa (Rand)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
South Korea (Won)	11.8171	-0.0742	0.04	220	11.8171	11.8171	11.8171	0.3
Taiwan (NT\$)	11.8171	-0.0742	0.04	220	11.8171	11.8171	11.8171	0.3
Thailand (Baht)	5.8888	-0.0001	951	728	5.8888	5.8888	5.8888	0.3
US Dollar (Dollar)	1.2840	-0.0035	832	848	1.2875	1.2830	1.284	0.4

WORLD INTEREST RATES

Nov 11	Over night	One month	Three months	Six months	One year	Long term	Dis. rate	Repo rate
Belgium	4%	4%	4%	4%	4%	4%	4%	4%
France	4%	4%	4%	4%	4%	4%	4%	4%
Germany	4%	4%	4%	4%	4%	4%	4%	4%
Italy	4%	4%	4%	4%	4%	4%	4%	4%
Netherlands	4%	4%	4%	4%	4%	4%	4%	4%
Portugal	4%	4%	4%	4%	4%	4%	4%	4%
Spain	4%	4%	4%	4%	4%	4%	4%	4%
Sweden	4%	4%	4%	4%	4%	4%	4%	4%
Switzerland	4%	4%	4%	4%	4%	4%	4%	4%
UK	4%	4%	4%	4%	4%	4%	4%	4%
USA	4%	4%	4%	4%	4%	4%	4%	4%
Asia								
Argentina	4%	4%	4%	4%	4%	4%	4%	4%
Brazil	4%	4%	4%	4%	4%	4%	4%	4%
Canada	4%	4%	4%	4%	4%	4%	4%	4%
China	4%	4%	4%	4%	4%	4%	4%	4%
India	4%	4%	4%	4%	4%	4%	4%	4%
Japan	4%	4%	4%	4%	4%	4%	4%	4%
Malaysia	4%	4%	4%	4%	4%	4%	4%	4%
New Zealand	4%	4%	4%	4%	4%	4%	4%	4%
Philippines	4%	4%	4%	4%	4%	4%	4%	4%
Saudi Arabia	4%	4%	4%	4%	4%	4%	4%	4%
Singapore	4%	4%	4%	4%	4%	4%	4%	4%
S Africa	4%	4%	4%	4%	4%	4%	4%	4%
South Korea	4%	4%	4%	4%	4%	4%	4%	4%
Taiwan	4%	4%	4%	4%	4%	4%	4%	4%
Thailand	4%	4%	4%	4%	4%	4%	4%	4%
US Dollar	4%	4%	4%	4%	4%	4%	4%	4%

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 11	BFI	DKG	FFI	DFI	DFI
Belgium	(BFI)	10.0	18.88	18.77	4.8
Denmark	(DKG)	52.69	0	8.804	2.52
France	(FFI)	59.85	11.36	10	2.99
Germany	(DFI)	29.46	3.906	4.28	0.1
Italy	(I)	49.46	8.387	8.387	0.1
Netherlands	(NFI)	10.31	0.281	0.281	0.006
Norway	(NFI)	17.35	3.482	3.006	0.8
Portugal	(P)	10.70	8.828	8.870	2.28
Spain	(S)	20.18	3.831	3.373	0.98
Sweden	(SFI)	24.74	4.696	4.134	1.26
Switzerland	(SFI)	43.32	9.223	7.920	2.18
UK	(U)	24.68	4.583	4.583	0.1
USA	(U)	50.50	9.547	10.05	2.4
Canada	(C)	23.16	4.385	3.870	1.11
Japan	(J)	31.48	5.971	5.256	1.5
Italy	(I)	32.26	6.124	5.391	1.54
Nov 12		39.17	7.435	8.548	1.90

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FINANCIAL TIMES
Magazines

HEALTH CARE - Cont.

CHEMICALS

ELECTRONIC & ELECTRICAL EQPT - Cont**EXTRACTIVE INDUSTRIES - Cont**

HEALTH CARE - Cont.

INVESTMENT TRUSTS - Contd[illegible]**DISTRIBUTO**

26.1	15.1	3061
32.4	15.1	3067
27.8	-	3042
5.30	23.8	2042
4.31	-	2041
22.8	-	1304
147.9	3.10	2850
12.231.10	-	2811
26.8	-	6111
10.117.10	-	4188
20.8	-	4188
90.117.10	-	4188
90.6	14.3	3021
10.8	-	3043
23.120.11	-	2008
2.06	-	1533
0.81	10.10	3542
6.08	-	3344
16.3	-	3394
-	10.10	3447
32.3	15.8	3417
28.0	-	3412
13.8	15.8	4008
28.4	-	4508
24.14	-	6708

Electric House.....☐
Bills & Everard.....☐
Enterprise Comm.....☐

2.03		1351
34.4	18.5	2584
3.18		2584
13.10	10	8151
35.9		2559
43.9	15.8	2776
3.54		2542
18.7		
1.57		4349
40.2	5.9	3543
1.05		2781
102.55	10	3738
223.5	16.5	2754
47.5	1.8	2771
1.69		3577
115.11	90	2776
10.9	28.2	2414
8.81	4.1	2780
68.1	28.9	3403
8.39		3407
14.91	10	2776
28.316	10	2776
5.04		1218
30.0	3.10	4681
1.30		1058
-0.502	1.1	4127
39.5		4071
5.20		4072

DIVERSIFIED INDUSTRIALS

2.724	10	3063
.59		3062
2.72	22.8	2539
.58		3074
.22		1368
.71	22.8	2534
.51		3097
2.7	22.8	1816
.55		1824
2.6	18.7	3028
1.424	10	3064
.64		2986
1.7		2985
3.0		2982
.50		3063
2.62	18.8	3024
.53		3038
3.3	22.8	3100
.78		3714
6.9	36.9	3101
5.5	15.8	3137
7.1		3994
2.7	14.2	2746
.80		5130
5.5	18.9	1110
.84		1107
11	19.9	1073

BUILDING MA

10	-	3193
74	711	3196
53	711	3229
57	184	3243
59	-	3243
11	59	1412
11	59	1410
58	59	1414
55	59	1419
10	-	1404
18	59	1036
11	-	1003
58	59	1000
58	-	1004
17	59	1003
16	47	3261
-	-	3242
15	16	3270
13	16	2576
17	41	1512
13	47	4876
50	-	1143
25	47	3303
34	-	3302
11	310	3245
10	-	3684
11	-	3685
19	185	3088

ELECTRICITY

4	-	3302
1.1	3.10	3345
1.0	-	3394
1.1	-	3395
2	18.5	3089
2	-	3092
4	-	3093
4	6.8	3398
7	-	3366
4	5.9	3376
8	-	4067
30	-	4068
0	20.8	3404
9	25.7	3408
1	-	3409
8	20.6	3127
1	-	3128
2	19.5	1762
7	-	1768
5	-	3959
17	-	4223
3	4.1	3446

ELECTRONIC & ELECTRICAL EQPT

7	283	2257
6	-	2281
9	5.9	2341
9	930	2440
6	3.10	2442
8	-	2443
4	7.11	2448
1	-	2454
6	7.11	2547
4	-	2545
1	-	2527
8	7.11	2625
3	3.10	2447
17.10	3522	
26.8	3625	
2	-	3527
2	1.8	2640
2	-	2573
10	16	1473
-	-	1479
27	6	1483
10.10	10	2481
-	-	2481
5.6	3524	

462
31

1192	5271
-	5280
5793	2222
-	2812
20.6	2133
-	-
-	-
25.7	4686
-	4627
16.5	4646
-	5302
14.3	3585
-	3586
26.9	6267
-	6266

London Ind. 9
Mil. Lake ... 10

LONDON SHARE SERVICE**TRANSPORT - Cont.**

[illegible]

Continued on next page

Financial Times

4 pm close November 11

NYSE COMPOSITE PRICES

Stock	High	Low	Open	Close	Change
Continued from previous page					
49 1/2% 2010	140.42	139.44	139.44	139.44	0.00
49 1/2% 2015	139.44	138.46	138.46	138.46	0.00
49 1/2% 2020	138.46	137.48	137.48	137.48	0.00
49 1/2% 2025	137.48	136.50	136.50	136.50	0.00
49 1/2% 2030	136.50	135.52	135.52	135.52	0.00
49 1/2% 2035	135.52	134.54	134.54	134.54	0.00
49 1/2% 2040	134.54	133.56	133.56	133.56	0.00
49 1/2% 2045	133.56	132.58	132.58	132.58	0.00
49 1/2% 2050	132.58	131.60	131.60	131.60	0.00
49 1/2% 2055	131.60	130.62	130.62	130.62	0.00
49 1/2% 2060	130.62	129.64	129.64	129.64	0.00
49 1/2% 2065	129.64	128.66	128.66	128.66	0.00
49 1/2% 2070	128.66	127.68	127.68	127.68	0.00
49 1/2% 2075	127.68	126.70	126.70	126.70	0.00
49 1/2% 2080	126.70	125.72	125.72	125.72	0.00
49 1/2% 2085	125.72	124.74	124.74	124.74	0.00
49 1/2% 2090	124.74	123.76	123.76	123.76	0.00
49 1/2% 2095	123.76	122.78	122.78	122.78	0.00
49 1/2% 2100	122.78	121.80	121.80	121.80	0.00
49 1/2% 2105	121.80	120.82	120.82	120.82	0.00
49 1/2% 2110	120.82	119.84	119.84	119.84	0.00
49 1/2% 2115	119.84	118.86	118.86	118.86	0.00
49 1/2% 2120	118.86	117.88	117.88	117.88	0.00
49 1/2% 2125	117.88	116.90	116.90	116.90	0.00
49 1/2% 2130	116.90	115.92	115.92	115.92	0.00
49 1/2% 2135	115.92	114.94	114.94	114.94	0.00
49 1/2% 2140	114.94	113.96	113.96	113.96	0.00
49 1/2% 2145	113.96	112.98	112.98	112.98	0.00
49 1/2% 2150	112.98	111.99	111.99	111.99	0.00
49 1/2% 2155	111.99	111.01	111.01	111.01	0.00
49 1/2% 2160	111.01	110.03	110.03	110.03	0.00
49 1/2% 2165	110.03	109.05	109.05	109.05	0.00
49 1/2% 2170	109.05	108.07	108.07	108.07	0.00
49 1/2% 2175	108.07	107.09	107.09	107.09	0.00
49 1/2% 2180	107.09	106.11	106.11	106.11	0.00
49 1/2% 2185	106.11	105.13	105.13	105.13	0.00
49 1/2% 2190	105.13	104.15	104.15	104.15	0.00
49 1/2% 2195	104.15	103.17	103.17	103.17	0.00
49 1/2% 2200	103.17	102.19	102.19	102.19	0.00
49 1/2% 2205	102.19	101.21	101.21	101.21	0.00
49 1/2% 2210	101.21	100.23	100.23	100.23	0.00
49 1/2% 2215	100.23	99.25	99.25	99.25	0.00
49 1/2% 2220	99.25	98.27	98.27	98.27	0.00
49 1/2% 2225	98.27	97.29	97.29	97.29	0.00
49 1/2% 2230	97.29	96.31	96.31	96.31	0.00
49 1/2% 2235	96.31	95.33	95.33	95.33	0.00
49 1/2% 2240	95.33	94.35	94.35	94.35	0.00
49 1/2% 2245	94.35	93.37	93.37	93.37	0.00
49 1/2% 2250	93.37	92.39	92.39	92.39	0.00
49 1/2% 2255	92.39	91.41	91.41	91.41	0.00
49 1/2% 2260	91.41	90.43	90.43	90.43	0.00
49 1/2% 2265	90.43	89.45	89.45	89.45	0.00
49 1/2% 2270	89.45	88.47	88.47	88.47	0.00
49 1/2% 2275	88.47	87.49	87.49	87.49	0.00
49 1/2% 2280	87.49	86.51	86.51	86.51	0.00
49 1/2% 2285	86.51	85.53	85.53	85.53	0.00
49 1/2% 2290	85.53	84.55	84.55	84.55	0.00
49 1/2% 2295	84.55	83.57	83.57	83.57	0.00
49 1/2% 2300	83.57	82.59	82.59	82.59	0.00
49 1/2% 2305	82.59	81.61	81.61	81.61	0.00
49 1/2% 2310	81.61	80.63	80.63	80.63	0.00
49 1/2% 2315	80.63	79.65	79.65	79.65	0.00
49 1/2% 2320	79.65	78.67	78.67	78.67	0.00
49 1/2% 2325	78.67	77.69	77.69	77.69	0.00
49 1/2% 2330	77.69	76.71	76.71	76.71	0.00
49 1/2% 2335	76.71	75.73	75.73	75.73	0.00
49 1/2% 2340	75.73	74.75	74.75	74.75	0.00
49 1/2% 2345	74.75	73.77	73.77	73.77	0.00
49 1/2% 2350	73.77	72.79	72.79	72.79	0.00
49 1/2% 2355	72.79	71.81	71.81	71.81	0.00
49 1/2% 2360	71.81	70.83	70.83	70.83	0.00
49 1/2% 2365	70.83	69.85	69.85	69.85	0.00
49 1/2% 2370	69.85	68.87	68.87	68.87	0.00
49 1/2% 2375	68.87	67.89	67.89	67.89	0.00
49 1/2% 2380	67.89	66.91	66.91	66.91	0.00
49 1/2% 2385	66.91	65.93	65.93	65.93	0.00
49 1/2% 2390	65.93	64.95	64.95	64.95	0.00
49 1/2% 2395	64.95	63.97	63.97	63.97	0.00
49 1/2% 2400	63.97	62.99	62.99	62.99	0.00
49 1/2% 2405	62.99	62.01	62.01	62.01	0.00
49 1/2% 2410	62.01	61.03	61.03	61.03	0.00
49 1/2% 2415	61.03	60.05	60.05	60.05	0.00
49 1/2% 2420	60.05	59.07	59.07	59.07	0.00
49 1/2% 2425	59.07	58.09	58.09	58.09	0.00
49 1/2% 2430	58.09	57.11	57.11	57.11	0.00
49 1/2% 2435	57.11	56.13	56.13	56.13	0.00
49 1/2% 2440	56.13	55.15	55.15	55.15	0.00
49 1/2% 2445	55.15	54.17	54.17	54.17	0.00
49 1/2% 2450	54.17	53.19	53.19	53.19	0.00
49 1/2% 2455	53.19	52.21	52.21	52.21	0.00
49 1/2% 2460	52.21	51.23	51.23	51.23	0.00
49 1/2% 2465	51.23	50.25	50.25	50.25	0.00
49 1/2% 2470	50.25	49.27	49.27	49.27	0.00
49 1/2% 2475	49.27	48.29	48.29	48.29	0.00
49 1/2% 2480	48.29	47.31	47.31	47.31	0.00
49 1/2% 2485	47.31	46.33	46.33	46.33	0.00
49 1/2% 2490	46.33	45.35	45.35	45.35	0.00
49 1/2% 2495	45.35	44.37	44.37	44.37	0.00
49 1/2% 2500	44.37	43.39	43.39	43.39	0.00
49 1/2% 2505	43.39	42.41	42.41	42.41	0.00
49 1/2% 2510	42.41	41.43	41.43	41.43	0.00
49 1/2% 2515	41.43	40.45	40.45	40.45	0.00
49 1/2% 2520	40.45	39.47	39.47	39.47	0.00
49 1/2% 2525	39.47	38.49	38.49	38.49	0.00
49 1/2% 2530	38.49	37.51	37.51	37.51	0.00
49 1/2% 2535	37.51	36.53	36.53	36.53	0.00
49 1/2% 2540	36.53	35.55	35.55	35.55	0.00
49 1/2% 2545	35.55	34.57	34.57	34.57	0.00
49 1/2% 2550	34.57	33.59	33.59	33.59	0.00
49 1/2% 2555	33.59	32.61	32.61	32.61	0.00
49 1/2% 2560	32.61	31.63	31.63	31.63	0.00
49 1/2% 2565	31.63	30.65	30.65	30.65	0.00
49 1/2% 2570	30.65	29.67	29.67	29.67	0.00
49 1/2% 2575	29.67	28.69	28.69	28.69	0.00
49 1/2% 2580	28.69	27.71	27.71	27.71	0.00
49 1/2% 2585	27.71	26.73	26.73	26.73	0.00
49 1/2% 2590	26.73	25.75	25.75	25.75	0.00
49 1/2% 2595	25.75	24.77	24.77	24.77	0.00
49 1/2% 2600	24.77	23.79	23.79	23.79	0.00
49 1/2% 2605	23.79	22.81	22.81	22.81	0.00
49 1/2% 2610	22.81	21.83	21.83	21.83	0.00
49 1/2% 2615	21.83	20.85	20.85	20.85	0.00
49 1/2% 2620	20.85	19.87	19.87	19.87	0.00
49 1/2% 2625	19.87	18.89	18.89	18.89	0.00
49 1/2% 2630	18.89	17.91	17.91	17.91	0.00
49 1/2% 2635	17.91	16.93	16.93	16.93	0.00
49 1/2% 2640	16.93	15.95	15.95	15.95	0.00
49 1/2% 2645	15.95	14.97	14.97	14.97	0.00
49 1/2% 2650	14.97	13.99	13.99	13.99	0.00
49 1/2% 2655	13.99	13.01	13.01	13.01	0.00
49 1/2% 2660	13.01	12.03	12.03	12.03	0.00
49 1/2% 2665	12.03	11.05	11.05	11.05	0.00
49 1/2% 2670	11.05	10.07	10.07	10.07	0.00
49 1/2% 2675	10.07	9.09	9.09	9.09	0.00
49 1/2% 2680	9.09	8.11	8.11	8.11	0.00
49 1/2% 2685	8.11	7.13	7.13	7.13	0.00
49 1/2% 2690	7.13	6.15	6.15	6.15	0.00
49 1/2% 2695	6.15	5.17	5.17	5.17	0.00
49 1/2% 2700	5.17	4.19	4.19	4.19	0.00
49 1/2% 2705	4.19	3.21	3.21	3.21	0.00
49 1/2% 2710	3.21	2.23	2.23	2.23	0.00
49 1/2% 2715	2.23	1.25	1.25	1.25	0.00
49 1/2% 2720	1.25	0.27	0.27	0.27	0.00
49 1/2% 2725	0.27	-0.71	-0.71	-0.71	0.00
49 1/2% 2730	-0.71	-1.69	-1.69	-1.69	0.00
49 1/2% 2735	-1.69	-2.67	-2.67	-2.67	0.00
49 1/2% 2740	-2.67	-3.65	-3.65	-3.65	0.00
49 1/2% 2745	-3.65	-4.63	-4.63	-4.63	0.00
49 1/2% 2750	-4.63	-5.61	-5.61	-5.61	0.00
49 1/2% 2755	-5.61	-6.59	-6.59	-6.59	0.00
49 1/2% 2760	-6.59	-7.57	-7.57	-7.57	0.00
49 1/2% 2765	-7.57	-8.55	-8.55	-8.55	0.00
49 1/2% 2770	-8.55	-9.53	-9.53	-9.53	0.00
49 1/2% 2775	-9.53	-10.51	-10.51	-10.51	0.00
49 1/2% 2780	-10.51	-11.49	-11.49	-11.49	0.00
49 1/2% 2785	-11.49	-12.47	-12.47	-12.47	0.00
49 1/2% 2790	-12.47	-13.45	-13.45	-13.45	0.00
49 1/2% 2795	-13.45	-14.43	-14.43	-14.43	0.00
49 1/2% 2800	-14.43	-15.41	-15.41	-15.41	0.00
49 1/2% 2805	-15.41	-16.39	-16.39	-16.39	0.00
49 1/2% 2810	-16.39	-17.37	-17.37	-17.37	0.00
49 1/2% 2815	-17.37	-18.35	-18.35	-18.35	0.00
49 1/2% 2820	-18.35	-19.33	-19.33	-19.33	0.00
49 1/2% 2825	-19.33	-20.31	-20.31	-20.31	0.00
49 1/2% 2830	-20.31	-21.29	-21.29	-21.29	0.00
49 1/2% 2835	-21.29	-22.27	-22.27	-22.27	0.00
49 1/2% 2840	-22.27	-23.25	-23.25	-23.25	0.00
49 1/2% 2845	-23				

